

## Workshop S

*Wednesday, November 9, 1:30-3 p.m. and 3:30-5 p.m.*

# ***ESTIMATING PROJECT RISK AND INSURANCE COSTS***

## Presented by

**William S. McIntyre IV**  
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Contractors routinely, and appropriately, include charges for their insurance costs in their cost of work. However, fairly allocating these costs to specific jobs requires contractors to evaluate their project risks and factor them into the cost of risk. Risk managers are in the best position to perform that task. While some allocations are straightforward, others are much more complex. For example, how much should a contractor add to its bid to compensate for a higher builders risk deductible? How much does the contractor's charge change based on the scope of the indemnification agreement? What about additional insured status, where the true cost of coverage far exceeds the "premium" insurers charge to add an additional insured? How can contractors factor in the potential for and cost of litigation in different locations? How do allocations differ on multiyear projects? What about medical inflation? These are only a few of the cost of risk issues that will be addressed in this workshop.

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**William S. McIntyre IV**  
**Chairman**  
**American Contractors Insurance Group**

Mr. McIntyre is cochairman of this Conference and is copresenting Workshop S, "Estimating Project Risk and Insurance Costs," on Wednesday afternoon. For more than 30 years, Mr. McIntyre has been involved in the insurance industry. He is chairman and a shareholder of American Contractors Insurance Group, Ltd. (ACIG), in Dallas. ACIG is construction-industry-owned. Mr. McIntyre has been very active over the years with the Associated General Contractors of America, writing articles and reviewing contract documents, and he is currently serving on AGC's Risk Management Committee. He has written many articles on insurance and risk management for construction and insurance industry trade journals. He coauthored *101 Ways To Cut Business Insurance Costs*, published by International Risk Management Institute, Inc. (IRMI). Mr. McIntyre also is a technical adviser for IRMI's reference manual for contractors, *Construction Risk Management*.

**James M. Shay**  
**Account Executive**  
**American Contractors Insurance Group, Inc.**

Mr. Shay is copresenting Workshop S, "Estimating Project Risk and Insurance Costs," on Wednesday afternoon. He currently serves as account executive for American Contractors Insurance Group, Inc., in Dallas, providing risk management services to various contractors throughout the United States. Previously, he was corporate risk manager for Swinerton, Incorporated, where he coordinated the continued development of Swinerton's risk management programs including its specialized wrap-up program that had \$800 million of committed construction volume, as well as deploying the Subguard (subcontractor default protection) program throughout the organization. He was also involved in current risk management technology projects and in developing and presenting foundational risk management programs.

He entered the insurance industry with Norcal Mutual Insurance, followed by Employers Insurance of Wausau working claims. He joined Swinerton Incorporated as the insurance claims manager in 1995.

Mr. Shay is a San Francisco Bay Area native and in 1988 graduated from San Francisco State University. He now resides in Dallas.

## ***Notes***

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# **ESTIMATING PROJECT RISK AND INSURANCE COSTS**

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**William S. McIntyre IV  
James M. Shay  
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1. Top five owner frustrations
2. Top five contractor frustrations
3. Market changes impacting insurance programs and costing models
4. Commercial versus residential construction
5. Wrap-up programs
  - a. Owner controlled insurance programs
  - b. Contractor controlled insurance programs
6. Standardized contract form approach
7. Cost identification issues by line of insurance
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9. Pricing models
10. Indexing for multiyear projects
11. Coordination with estimating
12. Commonly asked questions

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# **ESTIMATING PROJECT RISK AND INSURANCE COSTS**

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## **1. Introduction**

## **2. Frustrations with the Allocation Process**

### **2.1. Owner Frustrations**

- 2.1.1.** The changing costs of insurance from one project to another and from one region of the country to another.
- 2.1.2.** The general contractors' seeming inability to procure "typical" insurance terms and conditions and reasonably high limits.
- 2.1.3.** Contractor's trying to push risk of subcontractor's inability to get proper insurance coverage back to the Owner.
- 2.1.4.** Unclear response from the general contractor or their broker regarding back-up or validation of the general contractor's insurance rates.
- 2.1.5.** Belief that the general contractor is using the cost of insurance as another "profit center."

### **2.2. General Contractor Frustrations**

- 2.2.1.** Erosion of broad coverage within the insurance marketplace.
- 2.2.2.** Old projects giving rise to new insurance claims – proliferation of completed operations claims especially relating to construction defects.
- 2.2.3.** Subcontractors' position that they "just can't get" the required insurance, or that there is a significant up-charge to procure the required insurance. This situation is compounded by the seeming failure of those same subcontractors' insurers to stand up to claims when presented and constant foot-dragging on coverage determinations for tenders of defense/indemnity.
- 2.2.4.** The Owner's enthusiasm for pushing risk back onto the Contractor by way of the Prime Contract with broad-brush statements of "it's your risk." Also, the Owner Architect/Engineer's lack of adequate coverage and/or limits, effectively pushing risk back to the general contractor.
- 2.2.5.** Owners really thinking that insurance is a profit center.

## **2.3. Subcontractor Frustrations**

- 2.3.1.** Erosion of broad coverage within the insurance marketplace and general contractors and Owners not being flexible in consideration of this reality while being fixed into a subcontract price which does not capture market price escalation.
- 2.3.2.** Being held responsible for risks that they cannot meaningfully control and without receiving commensurate compensation.
- 2.3.3.** Being pulled into completed-operations claims with diffuse statements of “bad-work” before any meaningful investigation has taken place. General contractors and Owners demanding defense/indemnity response and threatening a lawsuit without providing a tangible connection between the alleged problems and the subcontractor’s work.
- 2.3.4.** Being told that they are accountable for insurance requirements (at their own expense) that they had not been made aware of prior to bid or that they cannot reasonably comply with.
- 2.3.5.** Wishing they had enough influence with the insurance marketplace to make insurance a profit center like the general contractors and Owners.

## **3. Market Changes Impacting Insurance Programs and Pricing Models**

### **3.1. Issues Common to the Construction Industry**

- 3.1.1.** Cost fluctuation for various lines of insurance which, at times, can be influenced more by market factors than by loss experience.
- 3.1.2.** Broad additional insured endorsements are less available in the general marketplace. The ISO is publishing more restrictive endorsements, which are being adopted in favor of the broader endorsement editions seen in the past
- 3.1.3.** Deductible / Retentions have increased – both as an insurer expectation and as necessitated to keep the net cost of insurance low. It then becomes the responsibility of the contractor to determine the charge-out rate, manner of financing, managing, and/or risk transfer for this “burning layer.”
- 3.1.4.** Self-insured retentions are becoming increasingly prevalent. This is problematic for Owners and/or general contractors because the insurer has no defense or indemnity obligation to any of the insured parties (including those recognized as additional insureds) until the SIR obligation has been satisfied.
- 3.1.5.** Erosion of coverage within the general liability form itself such as EIFS, subsidence, silica, CCA-C (chromated copper arsenate), residential construction (very broadly defined). Such exclusions on general contractor and subcontractor policies make long-term interpretation of the coverage uncertain.
- 3.1.6.** Insolvency of insurers on prior projects and on wrap-up programs.

- 3.1.7. Reduced number of quality insurers as rated by AM Best that can adequately serve the construction industry's unique insuring needs.
- 3.1.8. Cost to defend claims is increasing, thereby causing a corresponding erosion of available limits.
- 3.1.9. Deteriorating claims service and combative attitude of adjusters make long-term industry relationships increasingly important.
- 3.1.10. Limits or coverage available in the market for some contractors are often not commensurate with the risk of the work that they are performing.
- 3.1.11. More lending institutions are becoming more rigorous in providing the Owner with insurance requirements to comply with and which to place on general contractors in order to insulate risk to the lender.

### **3.2. Legal / Legislative Environment**

- 3.2.1. Complex litigation pertaining to construction defects has quickly become a market influencing force.
- 3.2.2. The statute of repose in many jurisdictions outstrips reasonable performance expectations (and warranty) of some of the systems integrated within the structure. Some "right of repair" laws in various jurisdictions have begun to address this inequity.
- 3.2.3. The case law/statutes in some jurisdictions limit the practical ability of the general contractor to transfer risk-financing obligations (additional insured endorsements) and hold-harmless obligations to the subcontractor, putting a heavier financial burden on general contractor's own program when it was not originally priced to carry that risk.
- 3.2.4. American Subcontractor Association is actively lobbying for restrictions to limit downstream indemnity transfers / insurance requirements on subcontractors.

## **4. Commercial versus Residential Construction**

- 4.1. Insurer definition of "residential work" is broadening and residential exclusions are becoming more prevalent within liability policies of construction firms.**
- 4.2. Contractors' policies are showing up with residential exclusions even though they may pursue residential work.**
  - 4.2.1. The exclusion is not necessarily specific as to ongoing operations or completed operations.
  - 4.2.2. It is dangerous to assume that simply because a contractor is bidding residential work that they have residential coverage.

### **4.3. Wrap-up programs are becoming the preferred method of insuring the residential risk.**

- 4.3.1. Residential wrap-up programs provide coverage that many contractors subcontractors can not get in the market today.
- 4.3.2. When purchased properly, the coverage continues through the applicable statute of repose.
- 4.3.3. Allows broader pool of qualified subcontractors from which to draw.
- 4.3.4. Unified defense and coordinated claims management can result in lower overall cost of defense.

## **5. Wrap-Up Programs**

### **5.1. Historical rationale for purchasing wrap-up programs**

- 5.1.1. The program will likely provide higher limits for the participating contractors than what they could provide on their own.
- 5.1.2. Save money – insurance credits back from contractors (for insurance provided under the OCIP) off-set the cost of the program.
- 5.1.3. Safety efforts are consolidated.
- 5.1.4. A unified defense results in lower overall defense costs.

### **5.2. Benefits of wrap-up programs in light of current marketplace**

- 5.2.1. A properly structured program can address thin limits within contractors' programs if the limits are project specific, and are not eroded by other dissociated projects.
- 5.2.2. May provide broader coverage within the policy form than what the general contractor or subcontractor might otherwise be able to obtain.
- 5.2.3. Eliminates the difficulties contractors often have in complying with additional insured endorsement requirements and the related tracking of certificates and endorsements for the most part.
- 5.2.4. Puts everyone on the same side of the table in difficult claims litigation, often defended by one legal representative.
- 5.2.5. Addresses "residential" insurance coverage issues when project details are accurately communicated to the underwriter.
- 5.2.6. When the program is properly purchased, the completed operations tail should extend through the statute of repose.
- 5.2.7. The cost of the program may well exceed the value of potential credits from the participating contractors. But the benefits from coverage enhancements,

increased limits and a completed operations tail through the statute of repose often outweigh the additional cost.

### **5.3. Recently, there has been an insurer migration away from favoring Owner Controlled wrap-up programs**

- 5.3.1. Old OCIP projects have experienced deterioration in claims experience.
- 5.3.2. Owner was not in the position of controlling construction activities on a day-to-day basis, making it difficult for them to have a direct impact on safety. Safety was often outsourced to third-parties and independent contractors.
- 5.3.3. There were many “one-off” deals for clients who had never done a wrap-up before and who were not likely to do another any time soon.
- 5.3.4. Decisions to initiate programs were often made by Owners primarily because of price – it was viewed as a commodity insurance product.
- 5.3.5. Owner Brokers had a tendency to over-sell the cost savings resulting from “insurance credits” from the general contractor and subcontractors. If/when the numbers did not pencil out Owners were disillusioned with the process.
- 5.3.6. Administrative requirements of managing the program to its conclusion (claims responsiveness as one example) and through to the statute of limitations were not appropriately accounted for. Difficult for contractors to get service response or even coverage confirmation on old wrap-up programs.

### **5.4. Owner Controlled Insurance Programs (OCIP)**

- 5.4.1. Challenges for the contractors.
  - 5.4.1.1. Exclusions contractors need to ask about.
    - 5.4.1.1.1. EIFS – Exterior Insulated Finish System – exclusions can extend to exterior systems beyond the EIFS system itself.
    - 5.4.1.1.2. Subsidence – often includes any movement of earth, such as a trench collapse, which would not intuitively be thought of as subsidence.
    - 5.4.1.1.3. Residential – the term residential may be defined so broadly as to actually exclude coverage for the structure (or parts of the structure) under construction.
  - 5.4.1.2. Broad cancellation provisions may allow the Owner to terminate the program for virtually any reason. This would be very problematic if it were on a residential / habitational project where the participating contractors do not have the ability to otherwise provide such “residential” coverage under their normal general liability program.

5.4.1.3. Unilateral right of the Owner to exclude various parties from participation could leave the contractor with a possible coverage gap on a selected subcontractor which may not otherwise have the proper coverage.

5.4.1.4. The purchase of low limits; insufficient to address catastrophe potential of the project.

5.4.1.5. The program may be purchased with a self-insured retention (SIR) feature. If so, there should be funding pre-arranged on behalf of the contractor participants (such as in an escrow account devoted solely for the purpose of funding the SIR obligation). Otherwise, the contractors may find themselves in the position of having to fund the SIR obligation in order to get coverage. This is especially likely if the Owner is an LLC intending to dissolve shortly after the completion of construction.

5.4.1.6. Completed Operations tail not as long as statute of repose – statements such as “the contractors can put the project back in their own program” are largely untrue.

5.4.1.7. Erosion of the available limits – limits not project-specific.

5.4.1.7.1. Program limits may be applicable to other Owner projects unknown to the contractor participants. Initially, the Owner may not know how many projects they intend to roll into a wrap up program.

5.4.1.7.2. Limits wasting away because of defense costs on claims for one or multiple projects, when the defense costs are inside the limit.

5.4.1.8. The process of the Broker/Owner calculating “insurance credits” can be confusing and make the project close out exceedingly difficult when a contractor is facing additional costs after project completion.

5.4.2. Necessity for “minimum” insurance standards during the proposal stage of a project that is being considered under an OCIP. Oftentimes the administrative and coverage details of the OCIP have not yet been determined at the project proposal, pre-construction stage.

## **5.5. Contractor Controlled Insurance Program (CCIP)**

5.5.1. Addresses risk financing issues both up and down-stream with Owners and subcontractors.

5.5.2. Continues the development of insurer relationships / market negotiations with the Contractor who is doing more work than the single Owner project.

5.5.3. Continues development of expertise and “team” approach to claims.

5.5.3.1. Risk Manager

5.5.3.2. Adjusters

5.5.3.3. Attorneys

5.5.3.4. Experts

- 5.5.4. Deductible obligations remain with the contractor with possible allocation of small amount to subcontractors to ensure they are motivated to mitigate losses.
- 5.5.5. No new Owner money at risk as program is priced at project outset.
- 5.5.6. Alternatively, agreement could be made to share upside/downside risk with the Owner with a predetermined IBNR factor and at a predetermined “close-out” date.
- 5.5.7. There may be a bidding disadvantage for the general contractor providing a CCIP in a competitive bid situation.
  - 5.5.7.1. Owner may not appreciate the insurance market and risk issues and a wrap-up program’s benefits, but will focus solely on the increased cost of such a program.
  - 5.5.7.2. Subcontractors may be confused when bidding to different general contractors – some with CCIPs, some without, some asking for insurance credits, some not.

## **6. Negotiating from Standardized Contract Form**

### **6.1. Budgets initially set using standardized industry forms taking into account risk issues and predetermined insurance requirements**

- 6.1.1. AIA 1997 A101 / A201 (Lump Sum)
- 6.1.2. AIA 1997 A111 / A201 (Guaranteed Maximum Price)
- 6.1.3. AGC 200 (Lump Sum)
- 6.1.4. AGC 250 (Guaranteed Maximum Price)

### **6.2. Deviation from standardized forms requires further investigation**

- 6.2.1. Evaluate whether contractor is assuming more or less risk with the change.
- 6.2.2. Be exceptionally cautious when agreeing to indemnify another party’s sole negligence or professional liability. There are many states which forbid those types of liability transfers in construction contracts – however there are some that do not. The insurance company may not respond to that “contractual liability” obligation thereby potentially resulting in an uninsured risk – this is especially true with the new ISO endorsements effective July 1, 2004 and based on the general liability policy definition of “insured contract.”
- 6.2.3. If risk is not insurable there are some alternate approaches which may be applicable depending on the type of risk being transferred.
  - 6.2.3.1. If the contractor would indemnify Owner as a result of the assumed risk, require an exception to the indemnity.



**6.2.8.2.2.** Program Manual needs to be reviewed for additional obligations and potential additional costs associated with any of the following.

- Credit process / close out
- Deductible allocations
- Administrative obligations
- Subcontractor insurance obligations (outside of the OCIP coverages) in excess of the general contractor's normal requirements
- Safety requirements in excess of OSHA requirements
- Drug testing requirements through to all subcontractors

**6.2.8.2.3.** Prime Contract addendum should properly incorporate details of the program including Owner obligations to provide coverage (and remedy to contractors for the Owner's failure to do so) as well as "off-site" coverage requirements and how the two coverages are to be coordinated.

**6.2.8.2.4.** Any subcontract addendum should be drafted by general contractor to fully incorporate the requirements of the program and flow-through obligations to the participating subcontractors.

**6.2.8.3.** Builders Risk may be provided as part of the program. Review the 1997 AIA A201 Section 11.4 as one potential model to memorialize the details of that coverage in the Prime Contract.

**6.2.9.** If the Owner has another contractor on the site which will interact with the general contractor/subcontractor forces or their work, there should be requirement that the "other" contractor provide a hold-harmless agreement and insurance in favor of the general contractor.

**6.2.10.** If the Owner requires use of a particular subcontractor or assigns a subcontract to the general contractor, there should be a reverse indemnity or a release in the event the subcontractor is unable to meet the general contractor's typical insurance requirements for that scope of work/trade.

**6.2.11.** Have predetermined processes / personnel dedicated to this insurance review.

**6.2.12.** Request actual policies for insurance coverages the Owner is to provide.

**6.2.12.1.** You should expect deviations between sample policies and actual policies.

**6.2.12.2.** If policies are not available or only samples are available for review, then any risk relating to uncovered losses should flow back to Owner.

**6.2.12.3.** Have "Difference In Conditions" options available to assist in pricing program gaps.

## **7. Cost Identification Issues By Line of Insurance**

### **7.1. Common Issues**

- 7.1.1.** A determination must be made as to what “price” should be charged within the cost of risk for the deductible exposure in each policy. The higher the selected deductible, the less the related insurance premium will be. So, the deductible must be accounted for.
- 7.1.2.** A policy’s deductible aggregate provides a gauge as to the contractor’s ultimate deductible exposure. If there is no deductible aggregate, a reasonable estimate must be made regarding that exposure.
  - 7.1.2.1.** Past loss analysis or actuarial projections can be made.
  - 7.1.2.2.** Alternatively, an estimate can be made based on the potential number or “expected” number of events.
- 7.1.3.** Self-insured retentions would need to go through some past loss analysis and future loss projections or actuarial projections to estimate the proper cost to allocate for the policy year.
- 7.1.4.** A properly priced retrospectively rated program should have a sufficient loss estimate embedded in the premium.
- 7.1.5.** Proper consideration must be made with regard to defense costs and how they interact with the deductible and the limits of insurance, and how the type of work and jurisdiction may influence the cost of defense.
- 7.1.6.** Although a flat premium may be originally developed based on total construction volume or other metric, determine the most accurate metric to use when allocating out that cost to the projects. The contractor may wish to use a method to allocate that premium that best takes into account the risks involving that coverage.
- 7.1.7.** Insurance that is maintained but not necessarily required by every Owner contract needs to be determined. Examples may be pollution, professional and or equipment coverage. All such insurances benefit the Owner directly or indirectly, but a decision about how to allocate those charges needs to be made.
  - 7.1.7.1.** Allocate just to projects requiring such insurance in the Prime Contract.
  - 7.1.7.2.** Allocate to all projects, regardless of the explicit insurance requirement.

## **7.2. General Liability**

**7.2.1.** There are a number of notable exclusions within most common policy forms, which now must be addressed with different insurance or internal funding mechanism.

**7.2.1.1.** Subsidence

**7.2.1.2.** EIFS

**7.2.1.3.** Residential

**7.2.1.4.** Silica

**7.2.1.5.** Chromated copper arsenate (CCA-C)

## **7.3. Auto**

**7.3.1.** Although policy premium is typically developed from the number of vehicles insured, the annual premium allocation would likely need to be based on construction contract value or other methodology to properly distribute the premium cost.

**7.3.2.** Proper internal procedures are necessary for employees who use their own vehicles for company business. Procedures should include a minimum stated insurance to be carried by such employees in order to insulate the firm's hired / non-owned vehicle exposure. There should be regular monitoring to ensure that proper insurance is in place while the employee is driving on company business. The usual mileage reimbursement rate takes into account the employees' cost of necessary insurance.

## **7.4. Equipment**

**7.4.1.** Coverage is typically rated against insured values and anticipated rental expenditures, subject maximum per item loss limit. Actual value of rented or leased item must be reviewed against this per item limit.

**7.4.1.1.** Tower crane value, for example, may exceed loss limit or may not be insured unless specifically scheduled. In this instance, premium may be most properly allocated to the specific project utilizing the crane or scheduled item.

## **7.5. Workers' Compensation**

**7.5.1.** Experience modifier.

**7.5.1.1.** The experience modifier may change (up or down) between the time the work is originally bid and when the work is actually put into place.

**7.5.1.2.** Should the contractor bid the work with its published modifier? Should the current Owner get the benefit of past internal cost of risk investments made by the contractor?

- 7.5.2. Schedule credits, which are granted in one year, may not be made available in subsequent policy years even though there may be no change in the contractor's workers' compensation experience.
- 7.5.3. Composite rating may be used to blend the cost of all employees workers' compensation rates to create better predictability of workers' compensation costs.
- 7.5.4. Use of governing class codes can simplify reporting and better reflect site risks rather than job description. This could be used for a stand-alone construction site.
- 7.5.5. Subcontractor may provide coverage through a Workers' Compensation Self-Insurance Trust.
  - 7.5.5.1. Trust members are liable in event of default of the Trust itself in discharging its workers' compensation obligations.
  - 7.5.5.2. The general contractor may be liable in the event of membership default.
- 7.5.6. Employee Leasing
  - 7.5.6.1. Leasing contract must be explicit as to who (leasing firm or contractor) provides workers' compensation.
  - 7.5.6.2. If the contractor is to provide workers' compensation, be sure the budget is adjusted to include that workers' compensation cost as it would not otherwise be reflected in a standard labor rate.

## **7.6. Professional Liability**

- 7.6.1. A contractor's professional liability policy typically covers the contingent professional liability of a contractor for the professional errors and omissions of its subcontractors. The coverage is written on a "claims-made" basis; meaning, that the policy in force at the point in time the claim is presented to the contractor is the policy required to respond to the loss.
  - 7.6.1.1. Limits for such a policy must be sufficient, taking into account the past professional liability exposures.
  - 7.6.1.2. Cost of the policy takes into account prior exposures.
  - 7.6.1.3. In the event of exhaustion of the limit, there should be a pre-negotiated aggregate reinstatement feature of the program to ensure continuity of coverage.
  - 7.6.1.4. Often the policy requires that the party providing professional services to the contractor must maintain a minimum limit of professional liability coverage.

- 7.6.1.5. There must be clear insurance requirements to the subcontractor providing professional services which outline, minimally, the limit of insurance stipulated in the contractor's contingent professional liability policy.
- 7.6.1.6. Be aware of whether the contractor would have a potential coverage gap in the event that the policy of the subcontractor providing professional services has an eroded limit due to the cost of defending or paying other claims.
- 7.6.2. A project-specific professional liability policy can ensure that there are limits available to the project in the event of a professional error made by one of the parties involved in the construction process.
  - 7.6.2.1. These types of policies are not as broadly available as in the past.
  - 7.6.2.2. Price of such policies has increased over the past few years.
  - 7.6.2.3. They can be wrongly perceived as first party coverage to remedy a variety of project problems which may be only tangentially related to the provision of such professional services.

## 7.7. Pollution

- 7.7.1. Be clear on what the Contract / subcontract insurance requirements are and whether the coverage purchased or maintained meets those requirements. Clarify that the pollution event that a party may be held liable for in the Contract is reasonably within that party's ability (or its subcontractor's ability) to control.
- 7.7.2. Mold coverage is often added by endorsement. In other words, just because a pollution policy exists, mold is not necessarily covered.
- 7.7.3. Some policies limit or exclude coverage relating to pollution damage to the work during the course of construction. Be clear in understanding of how the coverage actually applies – do not wait to figure it out when there is a claim situation to deal with.
- 7.7.4. Take the time to understand how the insurer means for the coverage to apply. Specifically ask which types of pollution events it is not intended to cover, and which types of bodily injury / property damage claims it is not intended to cover.

## 7.8. Builder Risk Insurance

- 7.8.1. The Prime Contract must be reviewed carefully to determine which party has responsibility for procuring this important coverage.
- 7.8.2. If the Prime Contract is silent regarding that obligation, the general contractor should include the price for the coverage in its budget as the “responsibility for the work” clauses could be argued in such a way as to hold the

contractor responsible for loss or damage, regardless of the existence of the necessary coverage. The pricing can be removed from the budget if the Owner ultimately provides the coverage. If in a hard-bid situation, the question should be clarified for the benefit of all bidders prior to the bid date.

**7.8.3.** If the Owner is intending on providing the coverage, be sure that the details of the required coverage are listed fully in the Prime Contract. The 1997 AIA A201 Section 11.4 is one potential guide to use to memorialize coverage points. Be clear on a number of key points as follows.

**7.8.3.1.** “All Risk” policy form.

**7.8.3.2.** Coverage for any existing structure in which the construction will take place (such as a renovation). The selected limit must be sufficient to cover a catastrophic loss and the parties must agree that the insurance limit selected is the sole source of recovery to the Owner in the event of a property damage claim. In other words, the general contractor and subcontractor(s) should not be held responsible for an underinsured loss to the existing structure.

**7.8.3.3.** Inclusion of earthquake / land movement coverage, especially in high risk areas.

**7.8.3.4.** Inclusion of flood / windstorm / water damage coverage.

**7.8.3.5.** Coverage for materials stored off site, intended for incorporation in final structure.

**7.8.3.6.** Inclusion of coverage for any Owner provided furnishing, fixtures and equipment which the general contractor or subcontractors will be asked to install or move in.

**7.8.3.7.** Delay in opening / loss of use / soft costs coverage, or the general contractor, subcontractor(s) and materialmen are provided with waiver of rights of action against them for such damages.

**7.8.3.8.** Boiler and machinery coverage as necessary.

**7.8.3.9.** Inclusion of general contractor, subcontractor(s) and materialmen as insureds.

**7.8.3.10.** Waiver of subrogation in favor of the parties involved in the construction processes.

**7.8.3.11.** Actual policy copy to be provided to the general contractor prior to the start of work.

**7.8.3.12.** Coverage to be maintained without interruption until final payment.

**7.8.3.13.** If the Owner intends on holding the general contractor or subcontractor responsible for some portion of the deductible, the exact dollar amount of that obligation must be listed in the Prime Contract. Some perils require an especially high deductibles.

**7.8.4.** If the general contractor is providing the coverage, the broadest available coverage should be procured (see listing above).

**7.8.4.1.** Details regarding the responsibility for the deductible must be clarified between the Owner and subcontractors. Perhaps high deductible perils (i.e. earthquake, flood, windstorm) should be an allowance item.

**7.8.4.2.** Copy of the policy should be transmitted to the Owner prior to the start of work.

**7.8.5.** After the building is turned over to the Owner, the Owner should name the general contractor (and perhaps the subcontractors) as additional insured with a waiver of subrogation if any of those parties are expected to continue to perform construction services or may be asked to return and perform maintenance or warranty activities. This should be memorialized in the Prime Contract.

## **7.9. Subcontractor Default Insurance (SDI)**

**7.9.1.** Procured by the general contractor as a replacement for subcontractor bonds. It is designed to cover the financial impact associated with a subcontractor default of its subcontract obligations. Advantages include providing higher limits that are available to respond to a subcontractor default and a much simplified claims process, helping the construction process stay on track. It also potentially broadens the pool of bidding subcontractors, creating work opportunities for those subcontractors unable to currently provide payment and performance bonds.

**7.9.2.** Premium is developed as a rate against anticipated construction volume making it easily translatable into a per-project charge.

**7.9.3.** Rates may vary by Contractor, by the type of construction risk, and by region.

## **8. Terrorism and TRIA**

**8.1.** TRIA will expire on December 31, 2005. It is uncertain if it will be reauthorized in its current structure or if it will go through a major restructuring.

**8.2.** Current Prime Contracts should take into account possibility of no federal backstop for terrorism coverage and a possible pull-back by traditional insurers in providing coverage. Contract should be clear with regard to who has the risk of loss to the work / materials in the event of a terrorism event.

## 9. Price Modeling for Assumed Risks

While there are innumerable approaches for developing charge-out rates for the cost of risk and insurance for projects, we have put together a matrix of potential costs to consider. We have also provided a few sample models designed to distribute the cost of risk between similar business units, or business units performing different types of construction services. While no single approach is without flaws, these models are intended to provide the rationale behind allocating the cost of risk and insurance premiums to the project.

<b>Sample Table for Developing Cost of Risk</b>		
<b>Coverage / Risk Item</b>		<b>Total</b>
General Liability	<i>Rate x exposure base</i>	
Automobile Liability	<i>Rate x exposure base</i>	
Excess / Umbrella Layers	<i>Flat</i>	
Professional Liability	<i>Rate x exposure base or flat</i>	
Pollution Liability	<i>Rate x exposure base or flat</i>	
Equipment (Construction)	<i>Rate x exposure base or flat</i>	
Crime	<i>Flat</i>	
Employment Practices / Directors and Officers	<i>Flat</i>	
Property / Equipment (Office)	<i>Rate x exposure base or flat</i>	
Builders Risk – Floater	<i>Rate x exposure base</i>	
Aircraft	<i>Rate x exposure base or flat</i>	
Risk Management	<i>Estimated annual cost</i>	
Claims Management	<i>Estimated annual cost</i>	
Safety Engineering	<i>Estimated annual cost</i>	
Safety Incentives / Bonuses	<i>Estimated annual cost</i>	
Risk Related Legal Costs	<i>Estimated annual cost</i>	
Broker Fee / Brokerage Services	<i>Annual cost</i>	
Deductibles (Aggregate)	<i>Cost based on deductible aggregates</i>	
Misc. Coverages	<i>Estimated cost</i>	
	<b>Sum:</b>	<b>Cost of Risk: \$ (A)</b>
<b>Potential Denominators</b>	<b>Total Revenue (Contract): (B)</b>	
	<b>Total Payroll: (C)</b>	
	<b>Total Craft Payroll: (D)</b>	
	<b>Total CM Fees: (E)</b>	
	<b>Total Construction Value under CM: (F)</b>	
<b>Other coverages as a separate charge - in addition to Cost of Risk developed above:</b>		
<b>Workers' Compensation</b>	Charge within labor rate	
<b>Primary Builders Risk</b>	Line item - influenced by total contract value and project schedule, phased turn-over	
<b>Subcontractor Default Insurance / Bonds</b>	Line item - policy rate against contract value.	
<b>Other Project-Specific Policies or Coverage (e.g. professional, pollution, specially scheduled equipment)</b>	Line item - include rate if final premium is subject to audit and adjustment.	

## SAMPLE MODELS

**Model 1 / Simplified:** Useful when contractor is providing primarily general contracting services between all of its business units.

\_\_\_\_\_ % of Contract Value [A/B]

*Alternatively:*

\_\_\_\_\_ % of Payroll [A/C]

**Model 2:** Provides risk adjustment between business units. In the following example, one unit does self-performed work (industrial) and the other does very little self-performed work (general contracting/construction management). In the example below, the Cost of Risk is equally weighted between the two factors. Actual weighting may vary depending on evaluation of the risks.

\_\_\_\_\_ % of Contract Value [(A/2)/B]

+ \_\_\_\_\_ % of Direct Craft Payroll [A/2)/D]

= \_\_\_\_\_ Cost of Insurance/Risk

**Model 3:** Provides risk adjustment between business units that directly manage work (general contracting) and units without privity of contract with site contractors (construction management). Below, the Cost of Risk is equally weighted between the two factors.

\_\_\_\_\_ % of CM Fee [(A/2)/E]

+ \_\_\_\_\_ % of Total CM Construction Value [(A/2)/F]

= \_\_\_\_\_ Cost of Insurance/Risk

### **Contract Wording**

In any of the above examples it is prudent for the parties to agree to the rate(s) at the time the Contract is executed and memorialize that understanding in the Agreement wording. This benefits the parties by excluding the issue from audit by negotiating and resolving any issues at the time of the project negotiation. Below is sample wording that can be added to Section 7.6.1 of the 1997 AIA A111 to memorialize the agreement between parties.

### **Sample Wording**

*Insurance shall be reimbursed for each pay application at the agreed upon rate of \_\_\_\_\_ and shall be adjusted in accordance with the \_\_\_\_\_ Index upon \_\_\_\_\_.*

## **10. Indexing Insurance Costs for Multi-Year Projects**

**10.1.Average:** Make generalized market assumptions about increases and decreases at each renewal and develop an average cost of insurance based on those figures.

**10.2.Weighted Average:** Make generalized market assumptions about increases and decreases at each renewal and develop a weighted average based on the timing of work in place.

**10.3.Price Indexes** (as defined on Bureau of Labor Statistics web site <http://www.bls.gov/ppi> and <http://www.bls.gov/cpi> ):

- Producer Price Index Finished Goods 1982=100 (Unadjusted)
- Consumer Price Index for All Urban Consumers (CPI-U) *This index has a subset of indexes, some addressing regional differences. Below is a sample of some of those different indexes:*
  - U.S. All items, 1982-84=100
  - U.S. All Items Less Food and Energy
  - U.S. Other Goods and Services
  - New York All Items
  - Philadelphia All Items
  - Chicago All Items
  - Washington-Baltimore All Items
  - Los Angeles All Items
  - San Francisco All Items,
  - Northeast Region All Items
  - Midwest Region All Items,
  - South Region All Items
  - West Region All Items,
- Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)
- ACG's Chief Economist, Ken Simonson, recently published an index summary showing the percent change for the past two years for of a number of key construction inputs. A copy of the document is available on the AGC Web site ([www.agc.org](http://www.agc.org)).

## **11. Coordination with Estimating**

**11.1.**Proposals should be submitted with the budgeting based on standard contract forms.

**11.2.**Clarify the types of projects for which a wrap-up program should regularly be considered, such as for projects with residential exposures.

11.3. Create minimum coverage expectations if the Owner is considering an OCIP program.

11.3.1. The budget should carry “Difference In Conditions” costs until the Owner’s coverage is better assessed – after which that DIC charge can be reconsidered.

11.4. Clarify who is to be responsible for purchasing and maintaining the builders risk coverage.

11.4.1. If the Owner is to purchase the coverage, the budget should carry “Difference In Conditions” costs until the actual coverage is better assessed – after which that DIC charge can be reconsidered.

11.4.2. Allocation for the deductible assessment should be carried in the budget until that is clearly resolved within the Contract.

11.5. Any specific project insurance charges for equipment which must be scheduled should be included in the budget. The estimating group must be made aware of the per-item limit the blanket equipment coverage provides and that any leased or rented item in excess of that value may carry an additional charge.

11.6. Inflationary or Index figures (increasing or decreasing) should be incorporated for budgets when work will be put into place one or more policy periods in the future.

## 12. Commonly Asked Questions

➤ **Why, as an Owner, am I being charged for insurance coverages not required in the Prime Contract?**

*There are two primary reasons for this. First, the indemnity agreement holds the contractors responsible for risks which they largely are unable to self-fund because there is typically no stated dollar cap to that obligation. So, while the insurance requirements may be silent on a number of key coverages, the indemnity obligation to the Owner necessitates that the insurance be purchased and maintained in order to uphold that obligation. Second, over time some coverage under the general liability policy form has eroded due to case law interpretations and changes to the policy form itself. This has brought about the need to purchase other policies - pollution being perhaps the best example of this. Also, equipment coverage is necessary because of the use of various types of equipment for the project by the general contractor. If the coverage could not get reimbursed in the budget, the only alternative would be to have all such equipment provided through subcontractors. Subcontractors would naturally include the cost of the insurance in their subcontract price (so the Owner would pay for it anyway), but the process of subcontracting the rental of such items may make the project less cost efficient.*

➤ **Why, as an Owner, am I being charged for deductibles which may or may not be expended on this particular project?**

*No contractor can accurately predict when or where a loss will occur. As such, all of a contractor’s projects should have some accrual for its deductible exposures in order to*

*have sufficient funding available for the project that does experience a loss. This is prudent on the contractors part and ensures that a fortuitous loss will not result in cash flow difficulties for the contractor.*

- **Why do general contractors believe it is “equitable” to require subcontractors to sign broad hold-harmless agreements? Doesn’t it make more sense for everyone to pay for losses in accordance with their share of the “fault?”**

*The long stated purpose of express indemnity or hold-harmless agreements was to allocate responsibility for a loss before the loss actually occurs. Then, there would be proper funding pre-arranged for the loss as well as a “road-map” for determining responsibility. This prevents finger-pointing, puts all of the indemnitee parties on the “same side of the table” and focuses the parties on mutually resolving the claim from the plaintiff party. This pre-set manner of resolving claims is to ensure that claim disputes do not interrupt the progress of the work or interfere with the relationship between the parties – keeping the relationship favorable for the next potential project together. In theory such an arrangement is equitable since all the parties have had the opportunity to establish their price at the time of bid for the work and including the indemnity obligations as outlined in the Contract. The definition of “insured contract” within the general liability policy form upholds these types of hold-harmless agreements.*

- **Why are general contractors and subcontractors often unwilling participants in Owner Controlled Insurance Programs?**

*While there are many reasons, which differ from contractor to contractor, here are some of the top ones:*

*1)The coverage is often not as broad as the coverage maintained by the contractor and often does not have a completed operations tail that extends to the statute of repose – leaving the contractor with coverage gaps which are for the most part irreconcilable and can not be resolved at any price.*

*2)The program’s limits are often used to cover multiple Owner projects. This provides no assurance to the contractor participant that any amount of coverage would be available for a loss on its project.*

*3)The administration of the program (insurance credits, paperwork, claims administration) does not add to the stated goal of making the project safer or more efficient, and at times has the exact opposite effect. Further, the failure of the insurer / broker to accurately and timely file the unit statistical information can result in contractors’ having inaccurate experience ratings.*

*4)The ability of the contractor to control the safety and claims processes are often removed to third-parties who have no direct relationship with the subcontractors and who have no risk to their balance sheet (experience modifiers) or their reputation (unfavorable verdicts or protracted/contentious litigation).*

- **As a general contractor, do I even need to carry professional liability coverage if I'm not doing design/build work?**

*There are many trades under contract to the general contractor which perform professional services, such as engineering, in order to properly execute their work (HVAC/Mechanical being notable examples). To the extent that there is an error in the execution of those services there may be a resulting professional liability claim. The subcontractor may or may not have broad enough coverage or sufficient limits to pay for the claim. Therefore, many general contractors have opted to purchase such "contingent" professional liability insurance which sits as excess to any professional liability coverage maintained by its subcontractors.*

- **What's the big deal with the new ISO 20 10 (07 04) additional insured endorsement?**

*Wording was added that essentially requires that the additional insured "prove" a case against the Named Insured – by showing that the loss or claim was "caused, in whole or in part, by: 1. Your acts or omissions; or, 2. The acts or omissions of those acting on your behalf." The plaintiff benefits from such arguments. It does eliminate coverage for the sole negligence of the additional insured (which many would say is reasonable, unless operating in a state where the indemnification of another party's sole negligence is allowed) but does not appear to eliminate coverage for the vast majority of claims which would have been covered under prior endorsement forms. Some contend that the endorsement actually limits coverage to only the vicarious liability of the additional insured, though the wording itself does not appear to allow for such limitation. Unfortunately, the wording does provide an open door and fertile opportunity to create further disputes between the parties and their insurers, and forestalls the coordinated defense of a claim – making more problematic a process which has always been difficult, even with the broadest additional insured endorsements.*

- **If I'm not building condominiums, why do I need to worry about "residential" exclusions?**

*Residential exclusions are now common for general contractor and subcontractor policies. The application of the residential exclusion often goes far beyond the definition of condominiums. The exclusion can be, and often is, applied to any structure in any way intended for habitational use. Such broad exclusions could arguably apply to apartments, time-shares, student housing, assisted-living facilities, etc. Anecdotally, one insurer stated that "if it is not a hospital or a prison and it has a bed in it, it's residential and it's excluded." Unfortunately, many Developers and Builders still narrowly consider "residential construction" as only condominiums and are unaware of how broad the exclusions really are within the general liability policies. For that reason, and in an attempt to eliminate such huge coverage gaps, a number of general contractors have moved toward performing all such work under contractor controlled insurance programs and providing the completed operations tail through the statute of repose.*

➤ **Isn't mold automatically covered on a pollution policy?**

*No. Many pollution liability insurers now exclude mold coverage, adding it back only by endorsement. The insurer may also impose a sub-limit on mold coverage. It is further prudent for the insured to review exactly how the mold coverage applies. There is at least one insurer which states that their policy simply does not (and will not) cover mold claims to the work during the course of construction, though a casual reading of the policy would not make that coverage position obvious. For a general contractor, mold damage during the course of construction may be their largest mold risk. Fortunately, there are insurers which do provide such coverage and it is wise for a contractor to review its various options within the current marketplace.*



**From the Chief Economist—**

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**Documenting Changes in Construction Costs, July 2003-July 2005**

The table below shows the latest year-over-year change in the Bureau of Labor Statistics (BLS)'s producer price indexes (PPIs) for a variety of construction inputs and for broader measures, such as the consumer price index for all urban consumers (CPI-U). Two years are shown because construction projects underway now were bid as much as 24 months ago. For some items, such as steel and lumber, prices have now settled down after a spike, while for others, such as cement, gypsum, copper, and petroleum products, price increases are still showing up or even accelerating.

There is a wide variation in the PPIs for different construction types, because they differ in the mix of components they use. Thus, the overall PPI for materials and components for construction rose at about the same rate as the overall finished-goods PPI in the last 12 months (4.5% vs. 4.6%) but the PPI for highway and street construction, a heavy user of asphalt and concrete but not of lumber, increased much more (11.5%).

This month, BLS introduced its first PPI for a finished building type, warehouses. This index tracks the cost of construction labor, overhead, and profit as well as materials and components. The index has risen 6% since December 2004. BLS plans to introduce a PPI for schools in July 2006 and other structure types in later years.

Looking ahead, spreading shortages of cement (now reported in 32 states plus DC) and continuing price increases for petroleum products are likely to push nonresidential construction costs higher. Construction is more vulnerable than the economy as a whole to commodities prices and supply-chain factors such as shortages in cement, oil, scrap metal or ore, because the industry is so dependent on materials and delivery costs. In contrast, the CPI and finished-goods PPI incorporate items for which there is more scope for capturing productivity gains from electronics, telecommunications, and labor savings.


	<u>Percent change</u>			<u>Percent change</u>	
	<u>7/04-7/05</u>	<u>7/03-7/04</u>		<u>7/04-7/05</u>	<u>7/03-7/04</u>
<b>Overall indexes</b>					
CPI-U	3.2	3.0	Nonferrous pipe, tube, and fittings	14.5	-0.4
PPI for finished goods	4.6	3.8	Fabricated structural metal	5.2	19.9
<b>PPIs for construction</b>			Fabricated structural metal for buildings	4.2	16.0
<b>NEW:</b> finished warehouse buildings (12/04-7/05) 6.0%			Architectural & ornamental metalwork	4.0	23.0
Construction machinery and equipment	7.1	3.5	Fabricated steel plate	1.4	7.5
Materials and components for construction	4.5	9.0	Prefabricated metal buildings	12.4	26.5
Inputs to construction industries	7.0	8.5	Concrete products	11.1	4.6
Non-residential	7.7	9.3	Concrete block and brick	10.3	2.2
Non-residential buildings	6.8	8.5	Concrete pipe	4.6	4.3
Highway and street construction	11.5	9.1	Ready-mixed concrete	13.9	4.5
Other heavy construction	8.9	11.7	Precast concrete products	7.1	5.7
Residential	6.8	7.9	Prestressed concrete products	2.8	7.7
Multi-unit residential	7.1	8.1	Brick and structural clay tile	6.2	2.3
Single-unit residential	5.3	6.9	Asphalt felts and coatings	5.1	-0.9
<b>PPIs for specific construction inputs</b>			Gypsum products	11.2	20.0
#2 diesel fuel	53.6	32.7	Insulation materials	-0.6	11.2
Asphalt	13.3	10.5	Paving mixtures and blocks	6.1	2.2
Lumber and plywood	-4.0	17.6	<b>PPIs for crude materials important to construction</b>		
Steel mill products	-0.2	39.4	Iron ore	20.8	1.9
Hot-rolled bars, plates & structural shapes	6.9	45.7	Iron and steel scrap	-34.2	98.5
Steel pipe and tube	6.4	57.7	Copper ores	36.4	75.5
Copper and brass mill shapes	14.2	33.2	Copper base scrap	42.3	45.4
Aluminum mill shapes	6.6	4.5	Aluminum base scrap	7.4	14.3
Structural, arch., pre-engineered metal products	5.7	22.0	Construction sand/gravel/crushed stone	6.6	3.9
			Cement	14.5	2.0

Source: Bureau of Labor Statistics ([www.bls.gov/ppi](http://www.bls.gov/ppi)), 8/17/05 (PPIs); ([www.bls.gov/cpi](http://www.bls.gov/cpi)), 8/16/05 (CPI-U). Data are not seasonally adjusted.

Workshop S

## ***Notes***

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 <p>IRMI</p> <p>25<sup>th</sup> IRMI CONSTRUCTION RISK CONFERENCE</p>	<h2><b>Estimating Project Risk and Insurance Costs</b></h2> <p><b>Presented By:</b> <b>William S. McIntyre IV</b> Chairman/CEO American Contractors Insurance Group</p> <p><b>James M. Shay</b> Account Executive American Contractors Insurance Group</p>
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<h3><b>Today's Goals</b></h3> <ol style="list-style-type: none"><li><b>1. Identify issues of risk and kick-start an organizational discussion.</b></li><li><b>2. Suggest a methodical approach.</b></li><li><b>3. Walk through a pricing model reflective of the cost of insurance and assumption of risk.</b></li></ol>	 <p>2</p>
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## **Owner Frustrations**



- **Pricing inconsistencies**
- **Uncomfortable with low GC limits, terms and conditions**
- **Subcontractor insurance issues being pushed back to the Owner**
- **Unclear back-up or validation of GC rates**
- **Overpaying the GC for risk**

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## **GC Frustrations**



- **Coverage erosion**
- **Completed operations claims**
- **Subcontractor insurance not being “available” or reliable**
- **Owners not appreciating sub risk transfer issues or importance of E&O issues from the architect**
- **Owner perceptions of “profit center”**

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## Sub Frustrations



- **Erosion of coverage, inflexibility of GCs**
- **Broad risk transfer from GC/Owner**
- **Completed operations / construction defect claims**
- **Unreasonable insurance requirements**
- **Not having influence in the insurance marketplace**

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## The Insurance Market Has Changed



- **Unpredictable costs**
- **Additional insured endorsements**
- **Deductibles increasing**
- **Self-insured retentions**
- **Policy exclusions**
- **Insurer insolvencies**
- **Construction defect claims**
- **Claims management**

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## **The Environment Has Changed**

- **Complex construction defect litigation**
- **Statutes of repose**
- **Case law limitations on risk transfer / risk financing**
- **Active lobbying to limit risk transfer / risk financing**


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## **Commercial vs. Residential Construction**

- **The definition of “residential” is getting broader**
- **Contractor policies may not provide coverage**
- **Wrap-up programs becoming the “go-to” solution**

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## **The Goal of Wrap-ups Is Changing**

- **Higher limits**
- **Consolidated safety efforts**
- **Consolidated claims defense**
- **Previously, primary goal was to “save” money**

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## **Focus Is Now on Wrap-Up Benefits**

- **Consistent policy coverage**
- **Eliminates AI issues**
- **Can address residential coverage challenges**
- **Completed operations coverage thru statute**
- **Cost may exceed “credits”**

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## **Risk Issues – OCIP**



- **Programs can be challenging for Contractors**
- **Exclusions**
- **Cancellation provisions**
- **Exclusion of certain parties**
- **Low limits purchased – eroded by other projects**
- **Self-insured retention**
- **Completed operations tail may be shorter than the statute of repose**
- **Deductible allocation back to the contractors**
- **“Credit” process can be cumbersome and interfere with typical subcontract closeout process / negotiations**
- **Recommend minimum criteria for “adequate” OCIP program**

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## **CCIP Option**



- **Stabilizes risk financing obligations**
- **Maintains insurer relationships with construction firm / consistent site control**
- **Supports team approach to safety and claims**
- **Deductible obligations remain with contractor**
- **Risk sharing possible – both upside and downside**
- **May be at a bidding disadvantage if project is competitively bid**

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## Contract Negotiations



- **Budget from standard contract forms**
- **Review assumption of risk**
- **Review insurability of risk**
- **Review split of risk transfer / risk financing**
- **Policy form review is essential**
- **Difference in conditions**

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## Common Cost Identification Issues



- **Deductible**
- **Self-insured retention**
- **Retrospectively rated programs**
- **Defense costs**
- **Flat premiums**
- **Necessary insurance vs. required insurance**

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## Cost Identification



- **General liability**
  - Exclusions – how are they allocated or funded?
- **Auto**
  - Proper distribution of cost
  - Hired / Non-owned exposure
- **Equipment**
  - Distribution of cost
  - Specific scheduled items have a cost


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## Cost Identification



- **Workers' compensation**
  - Experience modifier will change
  - Schedule credits will change
  - Composite rating can smooth costs
  - Governing class codes can smooth costs
  - Self-insurance trusts
  - Employee leasing
    - Potential budget implications

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## **Cost Identification**

- **Necessary versus required**
- **Professional liability**
- **Pollution liability**
  - **know your coverage**
  - **mold, yes or no?**

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## **Cost Identification Builders Risk**



- **Prime contract must be reviewed carefully**
- **Detail of coverage should be written into the contract**
- **Allocation of deductible needs to be identified by responsible party and amount**
- **Policy form needs to be reviewed**
- **Allocation of uninsured risks – who's responsible?**

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## Other Coverages / Issues



- **Subcontractor Default Insurance**
- **Project-specific policies**
  - Professional
  - Pollution
  - Equipment
- **Terrorism / TRIA**


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## Price Modeling

Sample Risk Model




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## Sample Models

- **Insurance/risk financing allocated as a:**
  - % of contract value
  - % of payroll


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## Sample Models

- **Distinct business units (general contracting / industrial)**
  - \_\_\_\_\_ % of contract value
  - + \_\_\_\_\_ % of direct craft payroll
  - = \_\_\_\_\_ cost of insurance/risk

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## Indexing Insurance Costs

- **Costs will change – how do you best take into account that change**
- **Average**
- **Weighted average**
- **Price indexes**

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## Coordination with Estimating



- **Proposals and budgets should assume that standard contract terms and conditions will be utilized**
- **Identify projects that are eligible for CCIP programs ahead of time**
- **Have minimum coverage/limits criteria for any potential OCIP program**
- **Be clear on who is carrying builders risk. DIC should be in the budget if the owner is carrying. DIC is removed when proper coverage is confirmed**
- **Advise estimating any of the equipment per-item limit**
- **Include inflationary figures or indexes for projects that extend past the current policy year**

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**\*\* DON'T FORGET \*\***



- **Complete Evaluation**
  
- **CE Credit**
  - **Attach personal bar code to voucher**
  - **Sign / Date voucher**
  - **Deposit voucher in container on exit**

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