

## Workshop M2

*Monday, November 14*  
*9:00 a.m.–noon and 1:30 p.m.–4:30 p.m.*

### **WRAP-UP DEBATE: CONFRONTING KEY ISSUES AND CONCERNS**

Presented by



**Kathleen A. Creedon**  
Owner  
Wrap Strategies



**Richard Resnick**  
Senior Vice President  
Aon Construction Services Group

Wrap-ups can be a great solution and are now in wide use. In this interactive session, two seasoned wrap-up professionals will debate both sides of the most controversial issues facing sponsors, participants, brokers, and insurers today. Topics discussed will include gross versus net bidding, credits, products and completed operations coverage, deductibles, warranty and repair extensions, enrollment eligibility, and more. At the conclusion of each topic, the speakers will suggest practices that can best meet the needs of all parties and cause the least friction. Wrap-up sponsors, participants, and brokers will leave the session with practical information to apply to their programs.

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**Kathleen A. Creedon**  
**Owner**  
**Wrap Strategies**

Ms. Creedon is one of the presenters for Monday's Workshop M2, "Wrap-Up Debate: Confronting Key Issues and Concerns." Ms. Creedon has worked in the insurance industry for 31 years and has been involved in construction-related insurance since 1987. She started an independent consulting firm, Wrap Strategies, in 2001 to provide wrap-up expertise and training for its clients. Prior to Wrap Strategies, she spent 4 years with Aon Risk Services and worked exclusively on wrap-up programs. Ms. Creedon was involved in both rolling programs and those set up for single sites. Before Aon, Ms. Creedon held various positions in marketing and account management including a position where she was an account executive for a large national residential and tunneling contractor headquartered in California.

**Richard Resnick, ARM, MBA**  
**Senior Vice President**  
**Aon Construction Services Group**

Mr. Resnick is one of the presenters for Monday's Workshop M2, "Wrap-Up Debate: Confronting Key Issues and Concerns." For more than 36 years, Mr. Resnick has been associated with the insurance industry, earning a reputation for particular expertise in the development, design, and servicing of wrap-up programs. He also participated as a technical adviser for development of the fourth edition of *The Wrap-Up Guide*, which was published by International Risk Management Institute, Inc. (IRMI), in 2006. Mr. Resnick also provides timely articles on wrap-up issues to IRMI's online expert commentaries.

Mr. Resnick is a national program executive and regional director of wrap-ups for Aon's Construction Services Group. His role is to provide oversight and leadership for Aon clients with large national wrap-up programs and assist in providing strategic direction for all of Aon's wrap-up clients.


Prior to joining Aon, Mr. Resnick held the position of regional wrap-up practice leader for The Willis Group and as senior vice president and director of Tanenbaum Harber's wrap-up group. Prior to that, he held positions in the wrap-up divisions of the Allied Group and Johnson & Higgins.

Mr Resnick is a speaker and frequent lecturer and has served on the faculty of Hofstra University and St. John's University.

A graduate of CW Post College, Mr. Resnick earned a master of business administration degree in finance from Pace University. He also holds the Associate in Risk Management designation.

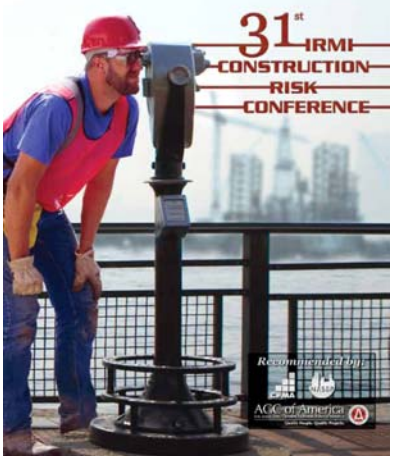
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## **Wrap-Up Debate: Confronting Key Issues & Concerns**

**Presented by:**  
**Kathleen A. Creedon, CIC, CRM**  
**Owner**  
**Wrap Strategies**

**Richard Resnick, ARM, MBA**  
**Senior Vice President**  
**Aon Risk Services Northeast, Inc.**  
**Construction Services Group;**  
**Wrap-Ups**

## General Topics

- ❑ Program Type
- ❑ Program Set-Up/Rules
- ❑ Enrollment
- ❑ Coverage
- ❑ Miscellaneous Administration

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# Debate Topic List

## Program Type

- ☐ Traditional v. CIP
- ☐ OCIP v. CCIP
- ☐ WC & GL CIP v. GL Only CIP

## Program Set-Up/Rules

- ☐ Accurate Financial Projections v. Overstated
- ☐ Gross v. Net
- ☐ One-Way Adjustment v. Two-Way
- ☐ Taking Umbrella/Excess Credit v. Not Taking
- ☐ Taking Profit & Overhead v. Not Taking
- ☐ Hard Ball re: Loss Sensitive Plans v. Negotiation Approach
- ☐ Assess Deductible to Participants v. No Deductible

## Enrollment

- ☐ Enrolling All v. Limiting by CV
- ☐ Enrolling Fabricators v. Not Enrolling
- ☐ Enrolling Crane Operators v. Not Enrolling
- ☐ Enrolling Sole Proprietors v. Not Enrolling

## Coverage

- ☐ Providing Emanating from Coverage v. Not
- ☐ Providing Statute of Repose Coverage v. Not
- ☐ Providing Warranty & Repair Coverage v. Not
- ☐ Requiring Written Contract v. Not
- ☐ Terminate CIP Early v. Waiting for Punch List

## Miscellaneous Administration

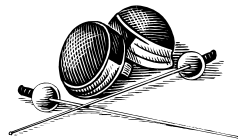
- ☐ Providing Full Copies of Policies v. Not
- ☐ Collecting Evidence of Offsite WC & GL v. Not

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# I. Traditional v. CIP



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## **II. OCIP v. CCIP (To Project Owner)**

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## **III. WC & GL CIP v. GL Only CIP**

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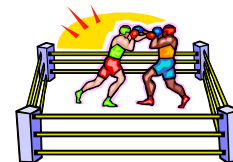
# IV. Accurate Financial Projections v. Overstated

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# V. Gross v. Net



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# **VI. One-Way Adjustment v. Two-Way**

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# **VII. Taking Umbrella/ Excess Credit v. Not Taking**

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# VIII. Taking Profit & Overhead v. Not Taking

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# IX. Hard Ball Approach to Loss Sensitive Plans v. Negotiation Approach



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# X. Assess Deductible to Participants v. No Deductible

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# XI. Enrolling All v. Limiting by CV

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## **XII. Enrolling Fabricators v. Not Enrolling**

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## **XIII. Enrolling Crane Operators v. Not Enrolling**

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# **XIV. Enrolling Sole Proprietors v. Not Enrolling**

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# **XV. Providing Emanating from Coverage v. Not Providing**

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# XVI. Providing Statute of Repose Coverage v. Not Providing

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# XVII. Providing Warranty & Repair Coverage v. Not Providing



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# XVIII. Requiring Written Contract To Trigger CIP Coverage v. Not Requiring

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# XIX. Terminate CIP Early v. Waiting for Completion of Punch List



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# **XX. Providing Full Copies of Policies v. Not Providing**

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# **XXI. Collecting Evidence of Off-Site WC & GL v. Not Collecting**

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## I. Traditional v. CIP (To Owner)

### PRO

- ❑ Simple accounting
- ❑ No additional administration
- ❑ Losses are the responsibility of negligent party
- ❑ No long-term claim, deductible, or collateral obligation

### CON

- ❑ Owner pays various and/or higher rates for insurance incl. markup
- ❑ Project covered by many insurance cos.
- ❑ Limited or no completed ops coverage for owner
- ❑ Complex litigation

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## II. OCIP v. CCIP (To Owner)

### PRO

- ❑ Control of program and coverage
- ❑ Potential for savings

### CON

- ❑ Variable premium
- ❑ Long-term claim, deductible, or collateral obligation

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### III. WC & GL CIP v. GL Only CIP

#### PRO

- ❑ Standard market
- ❑ Covers WC subrogation
- ❑ Insurer safety resources
- ❑ Better control over WC claims
- ❑ Potential for greater savings
- ❑ Does not mandate QA/QC

#### CON

- ❑ Minimum retention usually \$250,000+
- ❑ Greater downside exposure
- ❑ Collateral requirement
- ❑ Higher claims frequency
- ❑ More government regulation

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### IV. Accurate Financial Projections v. Overstated

#### PRO

- ❑ More accurate predictions
- ❑ Will not pay more due to minimum premiums
- ❑ Credibility with program sponsor

#### CON

- ❑ May not be able to sell the deal to sponsor or underwriter

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## V. Gross v. Net

### PRO

- ▣ Allows sponsor to track performance of program
- ▣ Sponsor may be able to extract more credit if error is found
- ▣ Deducts are real dollars back to the sponsor in the form of a credit

### CON

- ▣ Once the insurance number is in the bid it can be difficult to get out
- ▣ Most labor-intensive
- ▣ Potential for conflict

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## VI. One-Way Adjustment v. Two-Way

### PRO

- ▣ The sponsor will not have to return dollars to participant

### CON

- ▣ Participants may underestimate payroll
- ▣ May result in more complex or controversial closeout negotiations

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## VII. Taking Umbrella/ Excess Credit v. Not Taking

### PRO

- ▣ Increased credit dollars
- ▣ Is part of participant's insurance cost when they bid the job

### CON

- ▣ Participant friction
- ▣ Administrative burden

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## VIII. Taking Profit & Overhead v. Not Taking

### PRO

- ▣ Increased credit dollars
- ▣ Is part of participant's insurance cost when they bid the job

### CON

- ▣ Participant friction
- ▣ Administrative burden

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## IX. Firm Rule Re: Loss Sensitive Plans v. Negotiation Approach

### PRO

- ▣ Increased credit dollars
- ▣ Approach backed up by contract documents

### CON

- ▣ Participant friction
- ▣ Administrative burden

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## X. Assess Deductible to Participants v. No Deductible

### PRO

- ▣ Provides “skin in the game”
- ▣ Potential for increased safety awareness
- ▣ Participant may bring A team to project due to increased risk

### CON

- ▣ Participant friction
- ▣ Sponsor may pay for it in bid
- ▣ Administrative burden

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## **XI. Enrolling All v. Limiting by CV**

### **PRO**

- ▣ Ensures coverage for all eligible parties

### **CON**

- ▣ Administrative burden
- ▣ May enroll contractors who are not indoctrinated in safety program

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## **XII. Enrolling Fabricators v. Not Enrolling**

### **PRO**

- ▣ Coverage for events involving action over claims
- ▣ Potential for fewer insurers involved in litigation

### **CON**

- ▣ Increased risk
- ▣ Increased cost compared to credit offer

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### XIII. Enrolling Crane Operators v. Not Enrolling

**PRO**

- ▣ Coverage for catastrophic events
- ▣ Less administrative burden to review insurance program
- ▣ Potential for fewer insurers involved in litigation

**CON**

- ▣ Increased risk

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### XIV. Enrolling Sole Proprietors v. Not Enrolling

**PRO**

- ▣ Coverage provided under WC instead of GL
- ▣ Can better enforce safety regulations

**CON**

- ▣ Administrative burden
- ▣ May not have health insurance
- ▣ Return to work program may be difficult to enforce

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## XV. Providing Emanating from Coverage v. Not Providing

### PRO

- ❑ Ensures coverage for events emanating from the project
- ❑ Eliminates potential gap for participants

### CON

- ❑ Potential cost increase
- ❑ Inability to control safety off-site locations

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## XVI. Providing Statute of Repose Coverage v. Not Providing

### PRO

- ❑ Provides coverage for all completed operations events
- ❑ Eliminates potential coverage gap for participants

### CON

- ❑ Potential cost increase
- ❑ Extended deductible exposure
- ❑ Extended LOC exposure

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## XVII. Providing Warranty & Repair Coverage v. Not Providing

### PRO

- ▣ Provides coverage for warranty & repair events
- ▣ Eliminates potential coverage gap for participants
- ▣ Less administrative burden to review post-CIP insurance

### CON

- ▣ Potential cost increase

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## XVIII. Requiring Written Contract v. Not Requiring

### PRO

- ▣ Clarifies intent of parties

### CON

- ▣ Is difficult to enforce with lower-tier subs

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## **XIX. Terminate Wrap Early v. Waiting for Punch List**

### **PRO**

- ❑ Less risk
- ❑ Less cost

### **CON**

- ❑ Potential coverage gap for participants
- ❑ More administrative burden to review post-CIP insurance

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## **XX. Providing Full Copies v. Not Providing**

### **PRO**

- ❑ Less potential for E&O
- ❑ More informed participants
- ❑ Increased perception of transparency

### **CON**

- ❑ Administrative burden

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## XXI. Collecting Evidence of Off-Site WC & GL v. Not

### PRO

- ▣ Provides record of coverage in the event of a claim

### CON

- ▣ Administrative burden
- ▣ Participant friction

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**Some Key Issues & Concerns by Party**

**New or Veteran CIP Sponsor**

Will I save money?  
Will I lose money?  
How do I know I am not paying twice?  
Is the credit prediction correct?  
Is the claim prediction correct?

**Veteran CIP Sponsor**

How can I reduce my claims?  
How can I streamline administration?

**CCIP Sponsor**

What is the best way to sell the program to an owner?  
What's the right price to sell to an owner?  
How can I ensure the CCIP is profitable?  
How can I best control subcontractor accidents and injuries?

**Participants**

Is the coverage adequate?  
Will there be any coverage gaps?  
Will I be asked to give too much credit or an unfair credit?  
Will there be too much paperwork or time required?  
How will the CIP affect my X-Mod?  
Will I be out of the loop as respects claims management?

**Participants Broker**

How do I reconcile more work with less revenue?  
How do I get accurate and complete information about the program coverage?  
How do I reduce my potential for E&O due to CIP program coverage gaps?

**CIP Broker/Administrator**

Do we have a definitive scope of service?  
Does the sponsor have realistic expectations?  
Will the sponsor support the safety program and program administration?  
Is there E&O exposure?  
Will this CIP require more time to administer than anticipated?  
Will the GC be cooperative as respects administration?  
Will there be adversarial relationships?

**CIP Insurers**

How do I ensure financial viability of the sponsor?  
Am I requiring enough collateral?  
Do I know everything I need to know about the sponsor's commitment to risk control and safety?  
Do I know everything I need to know about the construction operations?  
Is the administrator capable or is our team required to be more involved than typically?

## M2. Wrap-Up Debate: Confronting Key Issues & Concerns

### I. OCIP v CCIP

#### A. Traditional Method

- Project Owner, CM/GC and Subs each provide their own Workers' Compensation, General & Excess Liability insurance for the project
- In essence Owner "buys" insurance from contractors
- Owner looks to contractors for indemnification and additional insured status via contract insurance requirements.

##### Advantages of Traditional Method-Owner

- Simple accounting
- No additional administration
- Losses become the responsibility of negligent party
- No long term collateral issues

##### Advantages of Traditional Method-Contractors

- Simple accounting
- Simplified bidding process by maintaining lump sum bidding protocol
- Maintain control over their own losses
- No need to deal with restrictive wrap-up exclusions
- Administrative burden is reduced by elimination of enrollment process

##### Disadvantages of Traditional Method-Owner

- Owner pays various rates for insurance including mark-ups
- Owner will generally pay 100% of contractors maximum cost of insurance
- Project is covered by many different insurance companies
- Each contractor and their insurance company may have different approaches to safety.
- No coordinated approach for safety or claims management
- Each contractor may have different limits
- Each contractor may have different coverage or the coverage may exclude certain items, for example, claims arising out of residential construction
- There may be limited or no completed operations coverage for owner
- Additional Insured endorsements may be inadequate
- Claims administration & litigation may be more complex due to multiple parties
- MBE WBE challenge to maintain required insurance on public projects

##### Disadvantages of Traditional Method-Contractors

- Inability to obtain required coverage (especially MBE's and WBE's on public projects)
- No guaranteed completed operations
- May not be able to provide adequate/required additional insured endorsements
- Policy rate fluctuations
- Impairment of aggregate limits
- Additional burden of administrating their own claims

#### B. OCIP Method

- Project owner provides certain insurance for the project on behalf of the CM/GC and Subcontractors
- CM/GC and subcontractors remove their insurance cost from their bids
- Project owner buys insurance for contractors
- Project owner responsible for safety and claims management program
- Project owner purchases tail coverage for completed operations through statute of repose
- Contractors enroll in program in order to obtain coverage
- Certain parties are generally not enrolled

##### Advantages of OCIP Method-Owner

- Potential cost savings due to economy of scale
- Coverage certainty & uniformity

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- Completed operations coverage extension
- Collaborative approach to safety
- Improved claims handling
- Streamlined/reduced litigation
- Potential to use smaller contractors, particularly MBE's and WBE's

### Advantages of OCIP Method-Contractors

- Coverage certainty & uniformity
- Completed operations coverage extension
- Collaborative/improved approach to safety-may benefit experience modification factor
- Potential for improved claims handling
- Encourages minority and woman owned business participation

### Disadvantages of OCIP Method-Owner

- Risk of maximum program cost
- Large initial cash outlay
- Potential higher cost for stand alone/individual project
- Variable cost to owner due to Final program audit (Payroll or CV)
- Claims activity
- Cost of administration
- Deductible obligation
- Long term LOC requirement
- Long term claim liability
- Uncertainty as respects contractor credits
- Increased responsibility/liability to contractors as respects the program coverage's terms and conditions
- Meetings with Administrator
- Can create potential conflicts with contractors regarding credits
- Claim activity review
- Deductible payment review
- Direct safety responsibility to ensure successful program
- Safety awareness efforts
- Training /Orientation
- Potential OSHA involvement
- Budgetary uncertainty as respects Assessment surcharges.

### Disadvantages of OCIP-Contractors

- Potential coverage gaps
- Rate disclosure
- Administrative burden
- Enrollment
- Credit calculation
- Payroll reporting
- Complex WC claims history
- Interact with another broker/firm
- Lack of control in safety and claims process
- Warranty work issues

### C. CCIP Method

- CM/GC provides certain insurance for the project on behalf of Project Owner and Subcontractors
- CM/GC will charge owner for cost of CCIP
- CM/GC responsible for claim payments and safety administration
- CM/GC may reduce the contract price to owner
- Subcontractors remove their insurance cost from their bids

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### Advantages of CCIP Method-Owner

- Realize some wrap-up benefits without financial risk
- Avoid all disadvantages of OCIP
- CCIP may utilize higher rated insurer than one time OCIP

### Advantages of CCIP Method-GC Sponsor

- Possibility of increased profit and establishment of a profit center
- Coverage certainty & uniformity
- Completed operations coverage extension
- Collaborative approach to safety
- Improved claims handling
- Streamlined/reduced litigation
- Use CCIP as a negotiating tool with contractors
- Disadvantages of CCIP Method-Owner
- Cost-Possibility of being charged maximum rate by CM/GC
- Cost-CCIP may be higher cost than OCIP if losses are low
- Cost-If project has a residential component- may be more costly than traditional method
- Disadvantages of CCIP Method-GC Sponsor
- Financial & administrative-Same as OCIP
- Safety-Control of risk as respects subcontractors
- Project dispute resulting in split with the CM/GC will result in loss of insurance program

## II. Gross v Net Bidding/Credit Tracking

### A. Net Bid (Bid Excludes Insurance)

- Bidders are directed to submit base bids to exclude their cost to provide the insurance required for the project

#### Advantages

- Least friction between sponsor
- CM and contractor participants
- May equalize bidders. Takes insurance out of the equation.
- Large companies who can afford large deductible programs do not get preference
- Least administratively burdensome option

#### Disadvantages

- Reduces ability to estimate program performance/estimated savings
- Equalization effect-May provide advantage to unsafe contractors with higher insurance costs

### B. Net Bid (Bid Excludes Insurance) With Add Alternate or Insurance Cost Identification

- Bidders are directed to submit base bids to exclude their cost to provide the insurance required for the project.
- Option 1-Bidders are directed to identify the insurance cost that was removed from the bid as an Add Alternate
- Option 2-Bidders are directed to identify the insurance cost that was removed from their bid (Not an Add Alternate, identification only)

#### Advantages

- Provides ability to track program performance/estimated savings
- Less friction between sponsor, CM and contractor participants than deduct method
- Less administratively burdensome option than deduct method
- Insurance credit verification may be excluded from buy-out process
- Simpler accounting- Insurance is not part of the Cost of Work

#### Disadvantages

- Must have competition or substantial insurance cost back up to ensure removal of insurance costs
- May provide advantage to unsafe contractors due to equalization factor

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### C. Type Gross Bid (Bid Includes Insurance) With Deduct Alternate Description

- Bidders are directed to submit base bids that include their cost to provide all insurance coverage required by the Contract Documents if the Wrap-Up is not implemented.
- The bidder must also identify an amount as a Deduct Alternate that represents their cost, including profit & overhead,\*\* to provide the insurance required by the Contract Documents.
- Documents.  
\*\*Optional

#### Advantages

- Provides ability to track program performance/estimated savings
- May allow sponsor to extract more credits if errors are found during review of insurance cost calculation

#### Disadvantages

- Most Labor Intensive
- Most friction with contractors
- Most administratively burdensome
- Must amend accounting method
- Insurance is part of buy-out process as negotiations should occur before contract award
- May end up awarding bid to most unsafe contractor