Mitigate construction project risk with construction insurance programs

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About the presenter

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Mitigate construction project risk with construction insurance programs

You will obtain an understanding of the following:

> The purpose of each type of construction insurance
> How insurance premiums are calculated
> How owners can minimize their premium costs
> How to audit a construction insurance program
> Typical gaps and traps of construction insurance programs
Polling question

What is your role in selecting or evaluating construction project insurance?

A. Decision maker
B. Influencer
C. Not involved
D. Not involved but I would like to be more so

Please respond using the polling section in the WebEx screen to the right.
Definition of risk management:

The process of planning, leading and controlling the resources and activities of an organization in order to fulfill its objectives cost effectively.
Process defined:

- Identify Exposures to Loss
- Examine Feasibility of Alternative Techniques
- Select the Apparent Best Technique
- Implement the Chosen Techniques
- Monitor and Improve the Risk Mgmt. Program
Exposure to loss:

- Property
- Personnel
- Net income
- Liability
Risk control techniques:

- Loss Prevention
- Contractual Transfer for Risk Control
- Segregation of Exposures - Separation or Duplication
- Exposure Avoidance
- Loss Reduction
Risk funding techniques:

- Current expensing
- Unfunded reserves
- Funded reserves
- Borrowing
- Captive insurers
- Commercial insurance
- Contractual transfer for risk financing
Definition of commercial insurance:

A contract under which one party, the insurer, agrees - in exchange for the payment of a premium - to pay for specified losses the insured may suffer, up to specified amounts, under conditions specified in the insurance contract.
Types:
> Workers’ compensation
> General liability
> Automobile
> Umbrella or excess liability
> Professional liability
> Property/ Contractor’s equipment
> Property/ Builder’s risk
> SDI
Polling question

Which of these do *not* affect workers compensation insurance premiums?

A. Payroll
B. Safety program
C. Experience
D. Project size

*Please respond using the polling section in the WebEx screen to the right.*
Workers’ compensation coverage:

Workers’ compensation costs:
*Premium = Payroll x Rate x Experience Factor*
Workers’ compensation coverage:

Typical traps:

> Side B coverage is requested at higher limits.
> Proper states should be scheduled
> USL&H must be provided where exposure exists
> Where a PEO is used, work comp carrier has to be endorse
General liability coverages & costs:

> Third Party Damages
> Bodily Injury, Property Damage, Personal Injury
> Defense Expenses
> Settlements, Awards

\[ \text{Premium} = \frac{\text{Payroll}/ \text{Sales}}{\text{Rates}} \times \text{Experience} \]
General liability coverages:

Typical traps:

> Subs not naming owner as AI
> AI endorsements not reviewed
> PNC coverage grant to owner
> Use of prohibited endorsements
Automobile coverages & costs:

Third Party Damages
- Bodily injury & property damage liability
- Hired and non-owned liability
- Medical payments

First Party Damages
- Uninsured and underinsured motorists
- Comprehensive and collision coverages
- Hired physical damage

*Premium = Vehicle Type, Usage and Cost x Rates x Experience*
Automobiles coverages

Typical traps:

> Subs not having hired/non owned
> Minimum limits enforced
Commercial insurance

Umbrella or excess liability coverages & costs:

Third party damages –

> Extends limits over underlying:
  – General liability
  – Auto liability
  – Employer’s liability

\[
\text{Premium} = \text{Limits Selected and Underlying Premiums} \times \text{Rates}
\]
Umbrella or excess liability coverages

Typical traps:
> Subs not naming owner as AI
> Per project aggregates
> PNC coverage grant to owner
> Use of prohibited endorsements
Professional liability coverages & costs:

Third party damages –
> Professional errors & omissions
> Defense expenses
> Settlements, awards

*Premium = Type of Professional/Sales/Limits x Rates x Experience*
Umbrella or excess liability coverages

Typical traps:

> Contractors not purchasing extended reporting period
> Insuring clause needs to define scope
> Exclusions are not uniform - review needs to be done
> Use of prohibited endorsements
Commercial insurance

Contractor’s equipment coverages & costs:

First party coverage –
> Mobile equipment
> At shop
> On job-sites
> In transit
> Hired, borrowed, and rented
> Crane overload

Premium = Value of Equipment X Rates X Experience
Contractor’s equipment coverages

Typical traps:
- Permissive use of owner’s equipment not specified
- Indemnification for permissive use
- Leased/rented reimbursement on time-sensitive jobs
Polling question

True or False: Builders risk insurance is the responsibility of the builder and the owner shouldn’t care about it?

A. True
B. False

Please respond using the polling section in the WebEx screen to the right.
Builder’s risk coverages & costs:

Premium = Cost of Construction x Rates
Builder’s risk coverages

Typical traps:

> Permission to occupy
> Soft costs underinsured
> Time-element/delay coverage where available
> Inclusion of subs every tier
Definition:

Specify the legal responsibilities and obligations between the project owner and the contractors.
Issues:
> Indemnification agreements
> Insurance specifications
> Insurance compliance/certificates of insurance
> Additional insureds/waivers of subrogation
> Builder’s risk
> Safety and loss control programs
> OSHA compliance
Indemnification Agreements:

Broad Form

Pay any and all damages, costs, expenses - even for sole negligence of owner

Limited Form

Pay bodily injury and property damages to the extent of own negligence
Insurance Specifications:

- Workers’ compensation – statutory benefits
- General liability – limits specified in contract
- Auto liability – limits specified in contract
- Umbrella/ XS liability – limits specified in contract
- Professional liability – limits specified in contract
- Builder’s risk - $Project Cost, $Materials On-site, Off-site and In Transit
- Additional insureds, waivers of subrogation
- Certificates of insurance
Polling question

True or False: Obtaining a certificate of insurance at the beginning of the construction project guarantees that insurance coverage is in place for the duration of the project?

A. True
B. False

Please respond using the polling section in the WebEx screen to the right.
Insurance compliance/certificates of insurance:

- Watch Out for Sole Proprietors
- Seek to Avoid Losses of Others
- Can be Charged Additional Premium for Uninsured Subcontractors

Often Project Manager’s Responsibility
Additional Insureds:
> Obligates an insurer to defend and possibly pay claims of another party
> Primary noncontributory

Waivers of Subrogation
> After payment of a claim, restricts an insurer’s right to collect from the responsible party
Construction contracts

Builder’s risk:

- **Contract Should Specify Who Purchases Coverage – Owner or Contractor?**
- **Named Insured Should Include Both The Owner, Contractor and Subcontractors**
- **Contract Should Specify Who Pays the Deductible?**
- **Add Loss of Use & Testing Coverages**
Additional Considerations:

> CIP use: OCIP & CCIP
  
  – OCIP can provide owners with broader coverage.
  
  – Potential cost considerations, improved RM.
  
  – Reduction in certificate management potential.
  
  – Additional administrative burden.
  
  – Loss sensitive risk with retentions.
  
  – Additional audit/monitoring needed by administrator to separate payrolls.
  
  – Owner may have additional safety and loss control responsibilities.

> Surety

> Subcontractor Default Insurance
Consideration for surety:

> Relieves the project owner of risks of financial loss as a result of liens for unpaid subcontractors and suppliers. They also protect taxpayer money for public projects.

> Transition between construction of the site and permanent financing is smooth because there are no liens.

> Surety company can offer assistance such as technical, managerial and financial – to move the project along and reduce the chance of default (project failure).

> Surety company arranges for project completion, if the contractor defaults
Consideration for subcontractor default insurance:

> Alternative to surety, can simplify a job claim / surety claim
> Increasing entry of competition to SubGuard
> Can contain a loss funding mechanism that would return premiums to the GC/owner
> Highlights GC subcontractor controls
Questions and comments

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