



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



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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



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

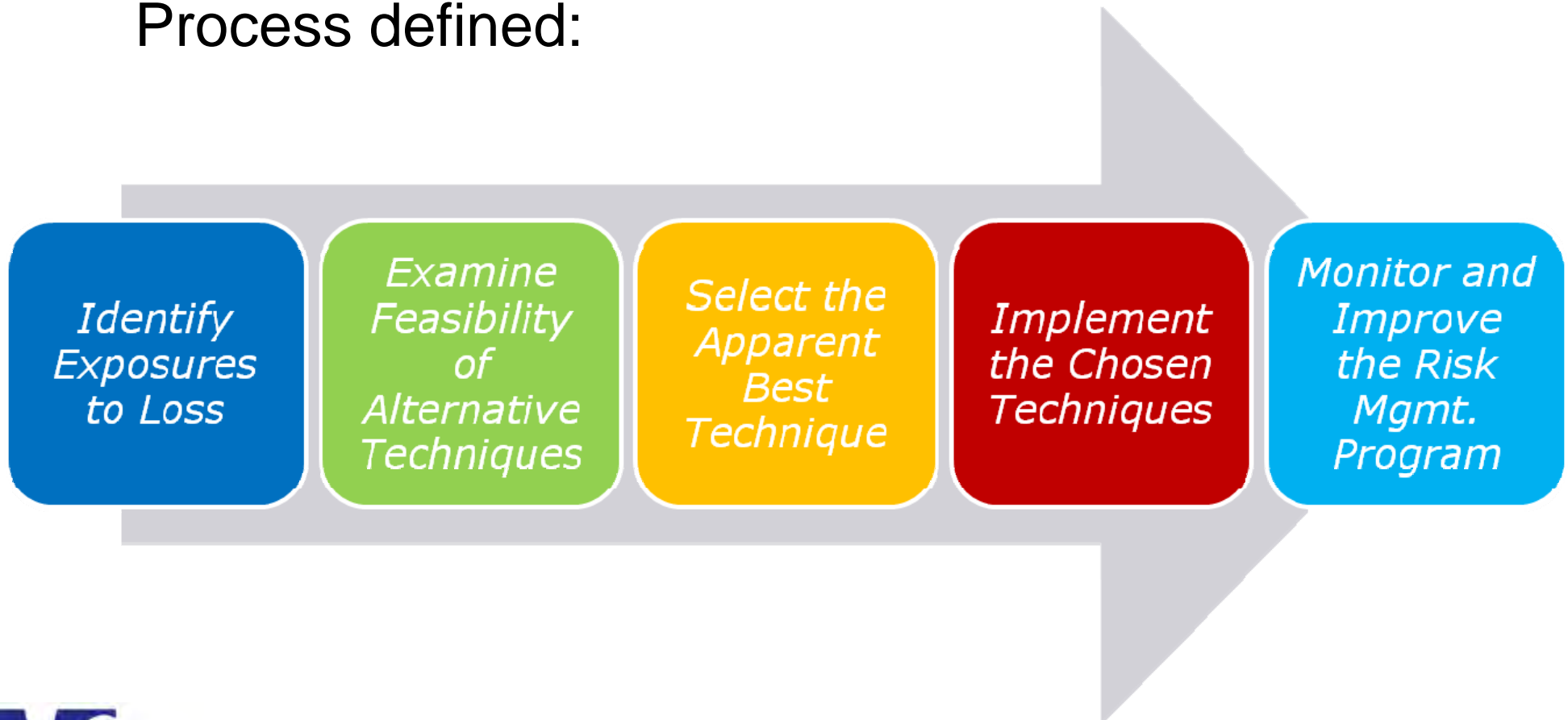
- A. Decision maker
- B. Influencer
- C. Not involved
- D. Not involved but I would like to be more so

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.

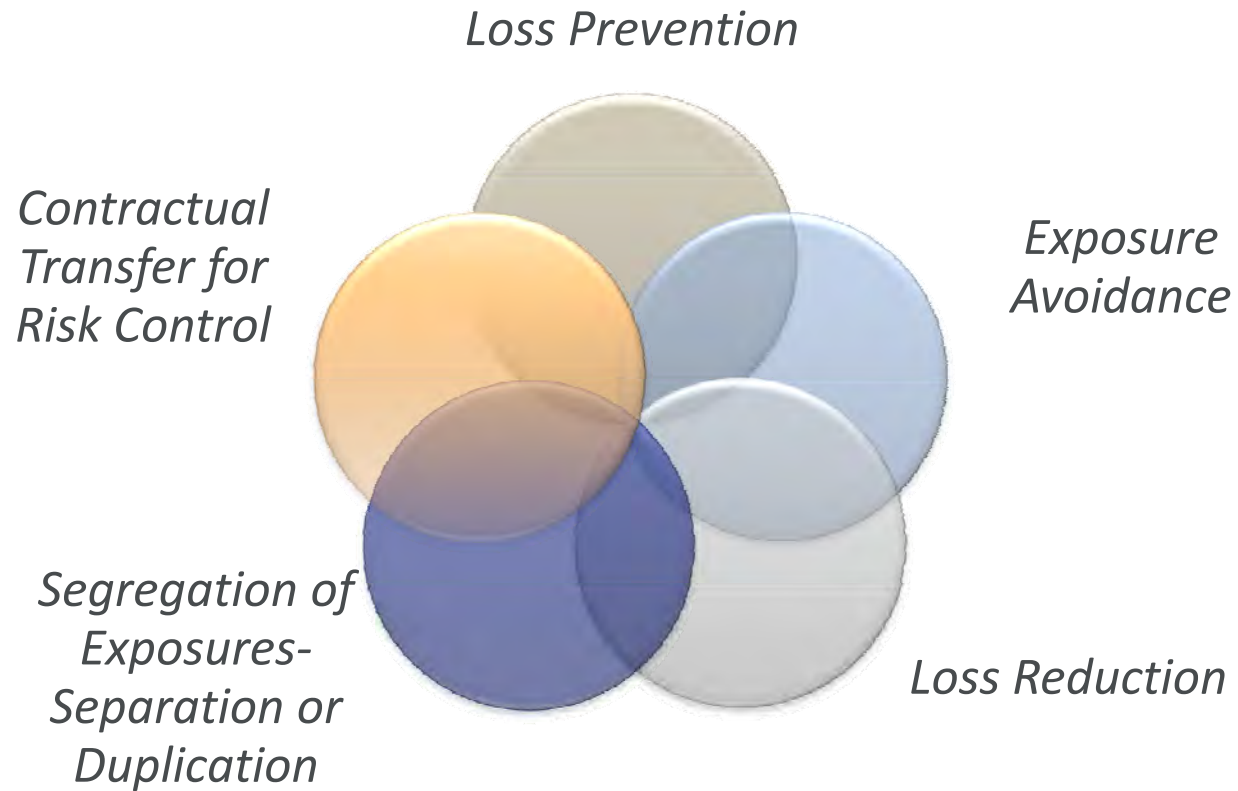
Process defined:



Exposure to loss:

- > Property
- > Personnel
- > Net income
- > Liability

Risk control techniques:



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



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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

Premium = Payroll/ Sales x Rates x 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

Umbrella or excess liability coverages & costs:

Third party damages –

- > Extends limits over underlying:
 - General liability
 - Auto liability
 - Employer's liability

Premium = Limits Selected and Underlying Premiums x 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

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



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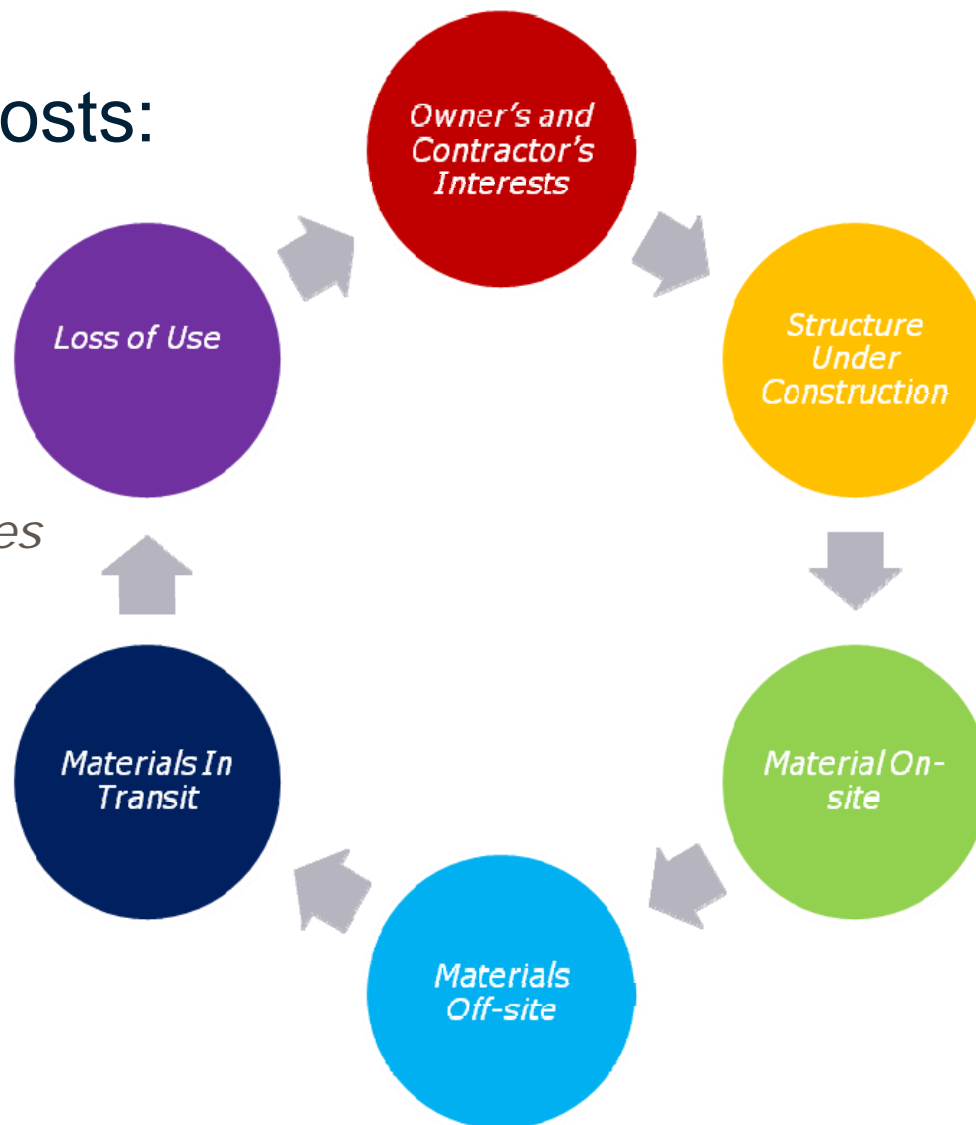
True or False: Builders risk insurance is the responsibility of the builder and the owner shouldn't care about it?

- A. True
- B. False

Please respond using the polling section in the WebEx screen to the right.

Builder's risk coverages & costs:

$$\text{Premium} = \text{Cost of Construction} \times \text{Rates}$$



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



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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

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Insurance compliance/certificates of insurance:



Often Project Manager's Responsibility

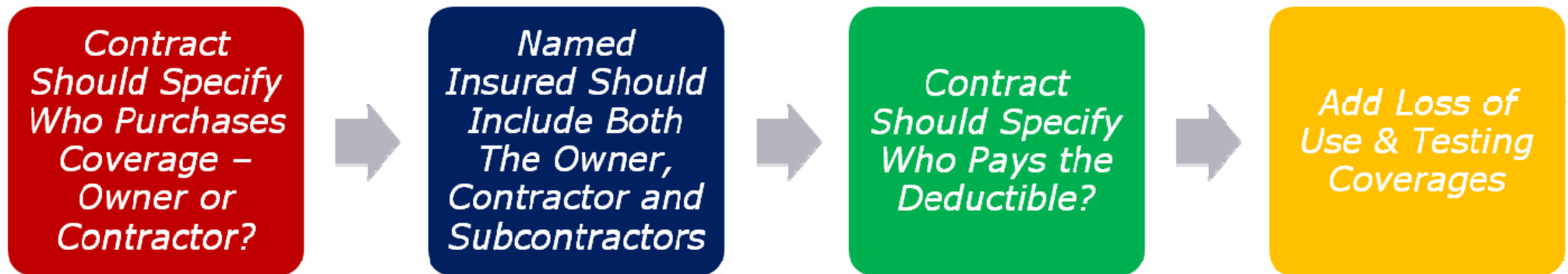
Additional Insureds:

- > 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

Builder's risk:



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



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Thank you for your attendance and participation!



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