CONNER STRONG & BUCKELEW

THE ESSENTIAL GUIDE TO

CONTRACTOR-CONTROLLED INSURANCE PROGRAMS

How general contractors can use CCIPs for savings and safety

Contractor-Controlled Insurance Programs

Contractor-controlled insurance programs, a.k.a. CCIPs or wrap-ups, are an alternative method for insuring large construction projects (typically those in the $200 million+ range) that have numerous subcontractors. Rather than having each subcontractor provide its own insurance, general contractors can create a single insurance program that covers all parties involved, which can translate into significant project savings.

CCIPs get their name from the centralized control they offer for a single large project or a number of smaller projects – leading to a safer risk management process. The colloquial term “wrap-up” has a similar origin – all insurance and risk management is wrapped up into one program. Relying on one policy provides better protection through broader policy language, raises liability limits, reduces losses, simplifies claim management and extends liability coverage.

However, CCIPs are much like city skylines – they constantly change along with the growing construction market. Those changes should merit attention not only from large GCs, but also smaller contractors that have previously operated below the typical $200 million financial threshold. Even if your company isn't a GC, but it frequently performs work on wrap-up projects, you should still gain a better understanding of these programs to streamline future work.

To help you become more familiar with the new CCIP landscape, this guide provides a quick explanation of wrap-ups, an overview of CCIPs' rising popularity and a set of best practices for organizing and administering CCIPs to realize greater savings.

HOW A CCIP WORKS

1

Bulk Pricing

One of the major benefits of a CCIP is its scale. Buying insurance in bulk leads to lower premiums for the various coverages offered in these programs, which can include:

- **Commercial General Liability,** which provides broad liability risk coverage, including bodily injury and property damage claims.
- **Workers' Comp and Employers Liability,** which protects all employees who are injured on a project.
- **Commercial Excess Liability,** which provides additional coverage limits beyond the previous two.

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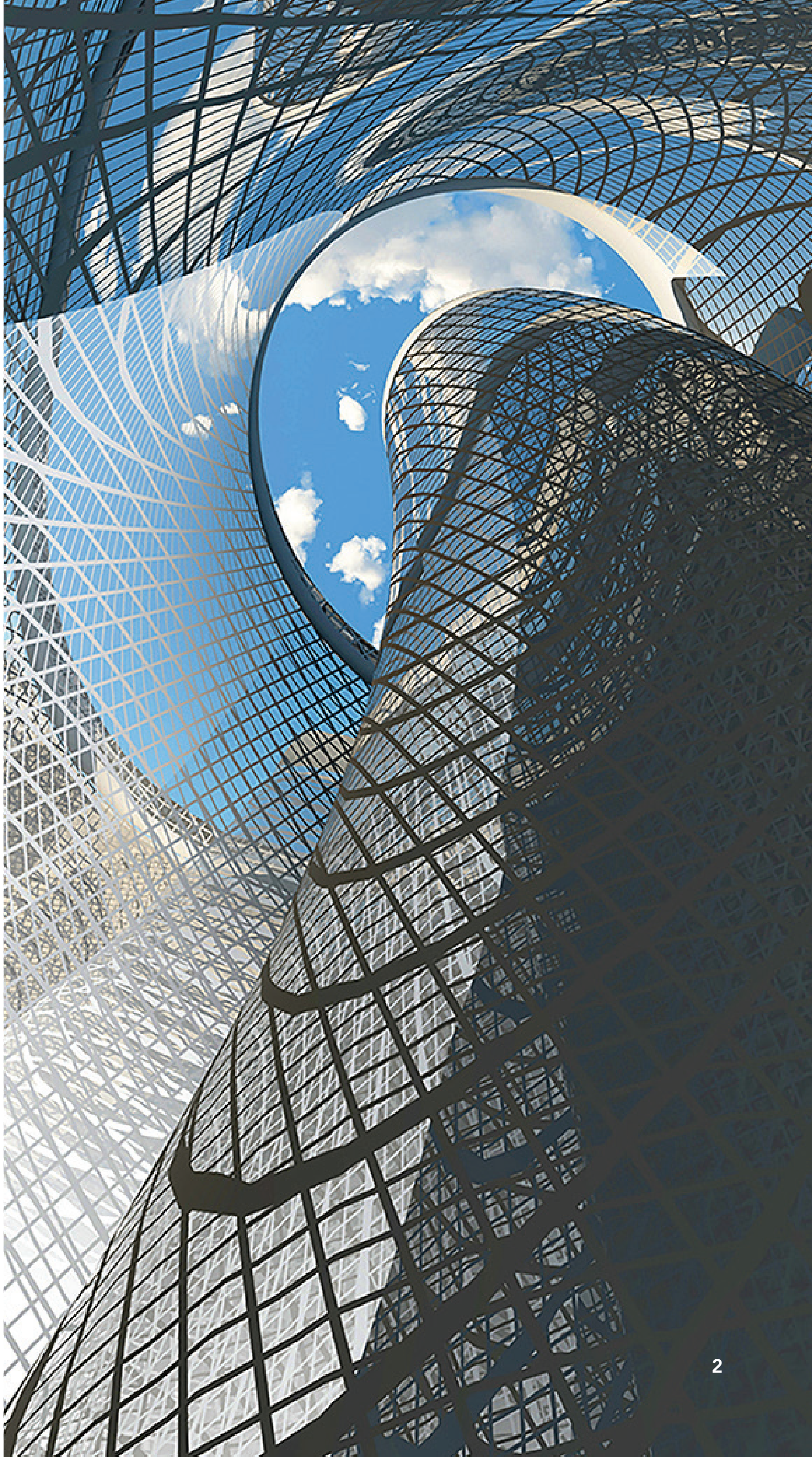

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Complete Coverage

CCIPs are effective at ensuring fewer coverage gaps, which can lower, or at least clarify, risk overall. Traditionally, each subcontractor on a project presents its own policies to cover risks. However, buying individual coverage is typically less cost competitive, and it can also often result in both duplication and gaps in coverage. When a CCIP is not in place, higher insurance premiums might be factored into the cost, and the GC can have greater exposure to losses if individual contractors do not have sufficient coverage. In other words, the more cooks in the kitchen, the more potential for both waste and errors.

Absent a CCIP, best practices suggest that a GC secure certificates of insurance (COIs) from each subcontractor working on the project. This process is time consuming and cumbersome for the GC due to the complexity of the information that should or should not be on the subcontractor's COI. The utilization of a CCIP ensures that all subcontractors' insurance is consistent with regard to effective dates, coverage and limits since they are all being insured under one master program.

If designed correctly, CCIPs should also reduce the likelihood of litigation between owners, contractors, subcontractors, etc., because all participants are insured under the same program. If something does go wrong, a well-structured CCIP offers less disruption and smoother claims processing because there's typically one insurance carrier to adjust the loss.

CCIPs may also help GCs to extend more opportunities to smaller subcontractors and Disadvantaged Business Enterprises (DBEs) that might otherwise be unable to fulfill standard insurance requirements, which could lead to future work on contracts that require DBE participation later on.

3

Safety-Based Savings

Ultimately, CCIP savings depend largely on a contractor's safety program. CCIPs are "loss sensitive" – that is, insurance costs are more directly related to insurance claims. They usually have high deductibles, but offer significant savings if fewer claims are filed. While it puts more financial risk on the contractor, there is also more opportunity to save.

Final net costs of a project enrolled under a CCIP will be ultimately determined at the conclusion of a project when all claims are closed out. A typical per-occurrence deductible for a CCIP program is $250,000. Subcontractors insured under their own practice insurance program usually carry lower deductibles, but remember that the subcontractors enrolled in a CCIP don't have the burden of any deductible since the GC sponsoring the CCIP incurs all costs and deductibles.

For that reason, CCIPs can help incentivize safer activities. They motivate the GC to create a comprehensive and centralized safety program, because any money not paid toward those high claim deductibles is potential profit.

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“CCIPS ARE MUCH LIKE CITY SKYLINES – THEY CONSTANTLY CHANGE ALONG WITH THE GROWING CONSTRUCTION MARKET.”

RISING INTEREST IN CCIPS

Through buying at scale, reducing risk, and having better organization overall, CCIPs can lead to big savings on big projects. However, CCIPs are becoming more common and beneficial for several other reasons.

As previously mentioned, CCIPs are likely to be implemented for project hard costs of $200 million or more, so larger firms often have a program in place due to their typically high project volume. Further, owners can also purchase this type of coverage – known as Owner Controlled Insurance Programs (OCIPs). An OCIP is essentially the same as a CCIP, with the exception of the owner sponsoring and paying for the program and in turn obtaining the savings achievable under a safely run project.

This might be old news for these contractors and owners. But, if you don't already have a program in place, you might be part of an emerging class of contractors that are able to utilize CCIPs for the first time, thanks to the expanding construction market.

Increased Work & Costs

Many U.S. cities, such as New York City, San Francisco, Seattle and Houston, are experiencing a construction boom that has created more large-scale projects.

Even if smaller firms cannot participate in large projects, they can potentially amass enough smaller projects to create a "rolling" CCIP. While this type of program is a risk in a down market in which there might not be enough project volume to justify fixed premiums, a healthier market means contractors are more likely to have a backlog of projects and get the most for their money. Under the "rolling" approach, a GC would reach the $200 million hard costs threshold with multiple projects. If a GC can sell its program for this volume within a three-year period and complete the work in a five-year period, a competitive CCIP can be structured.

Changing Owner Priorities

Another reason that more contractors may be compelled to create CCIPs stems from owners moving away from OCIPs.

Traditionally, OCIPs were much more common than CCIPs. But as owners eye more development opportunities, they may have greater financial and administrative reasons to pass insurance responsibilities onto contractors.

And, owners that lack experience in managing construction risk will likely view a CCIP as a simpler alternative to an OCIP. In those cases, contractors might actually be able to promote their CCIP as a competitive advantage.

Increased Liability Regulation

There are additional regulatory reasons that CCIPs are becoming more attractive. Some states have actually restricted the ability of GCs to pass liability onto subcontractors, which is often part of the bottom-up approach of triggering insurance policies. A CCIP avoids those conflicts by creating one program that covers all subcontractors.

Market Competition

Finally, the carrier market for CCIPs is becoming increasingly competitive. With more carriers offering CCIP services, brokers have more options to shop around and secure attractive rates. GCs also have the option to purchase a CCIP with only the general liability component to gain all the other advantages of a CCIP. With this approach, even smaller projects can now be considered.

CCIP BEST PRACTICES

If you're looking to improve your CCIP performance or take advantage of one for the first time, what do you need to know?

Vet Your Subcontractors

First, establish a strong subcontractor prequalification process to ensure all the companies involved in the CCIP have solid safety records. The best performing CCIPs tend to be those where the GC selects subcontractors by looking beyond cost. Here are some questions to consider:

- What are the subcontractors' safety records?
- Do they have formal safety programs in place?
- How have they responded to accidents in the past?
- What value do they bring to the table in terms of planning?
- Do they have a track record of being responsive and working well with other partners?

Unsafe subcontractors will negatively impact the results of a CCIP. Thus, it is critical to look beyond the bid pricing and consider a subcontractor's OSHA-recordable incident rates and Experience Modification Rating.

While cost is undoubtedly crucial, unsafe and disorganized subcontractors can cost more in the long run in a loss-sensitive CCIP. Safety in this context needs to be regarded as a hard business goal.

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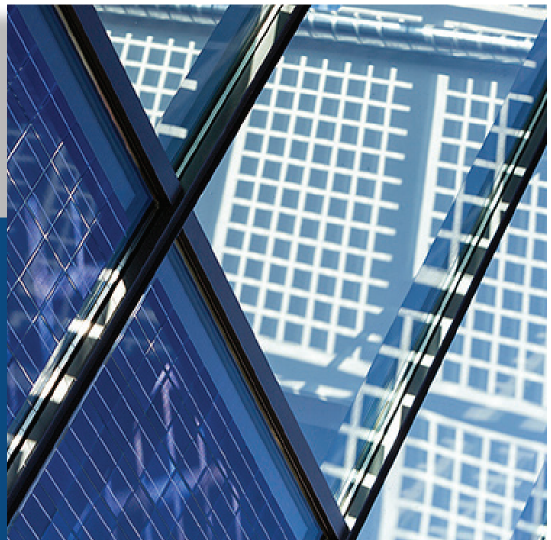

Achieve Buy-In

Once the right subcontractors are on board, the next step is to attain buy-in on the safety program you plan to put in place. Many aspects of wrap-ups can create confusion and inconvenience for subcontractors, so be prepared to field such questions as:

- What happens if my existing insurance policy has wrap-up exclusions?
- Am I covered for general liability while doing warranty or punch list work after substantial project completion?
- How is coverage provided for offsite risks related to the project, like manufacturing and prefabrication?
- What about completed operations claims within the statute of repose?

There are a number of ways in which GCs can keep subcontractors informed. Communicate all loss control and administrative requirements during the bidding process so subcontractors are aware well ahead of time. Issue documents with details of the program coverage details, limits and duration. And be sure to keep subcontractors looped in on the claims adjustment process.

Ensure Continuous Compliance

With the subcontractors informed about the insurance details, the next step is to ensure they are compliant with your safety program, which should begin before you even break ground.

To start, gather all subcontractors together to pre-plan the project. Review the overall plan and analyze the riskiest elements, such as cranes and fall hazards. Make sure everyone comprehends the mandatory safety protocols for all those issues, which smart developers set above and beyond the OSHA minimums. For instance, mandatory drug testing is increasingly a must-have in a top-notch safety program, if permissible in the jurisdiction where the work is being performed.

Setting safety targets ahead of time is also smart. Rather than only relying on past personal experience, contractors should proactively work with their insurance broker to get a bigger picture of industry performance standards to understand how they compare to best-in-class safety programs.

Don't underestimate the value in visiting and surveying jobsites, as it can help to correct dangerous behavior immediately and make improvements. When it's not possible to be onsite, such technology as cameras and drones can provide additional assistance.

Develop a Claims Management Process

The claims management process should be developed with the GC and all insurance partners laying out the specific service standards. That means articulating how claims are supposed to be reported, what the investigation process will be, and how claims are managed as a whole. The emphasis should be on both thoroughness and speed, with claims being reported quickly, investigated without delay and managed diligently.

The evolving best practices on minimizing these claims focus on not only getting workers help, but also getting them back to work. Onsite medical facilities and Return-to-Work programs can help maximize efficiency and minimize claim costs that have historically ballooned under less-organized programs.

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KNOW THE DISADVANTAGES

The truth is, not all companies have a strong enough safety culture and risk appetite to realize the full benefits of a CCIP. It takes a high-performing contractor and insurance partner team to execute on a program in a way that maximizes ROI.

Without that, it's possible to experience worse performance than with a traditional approach that has guaranteed rather than variable costs. Some contractors that employed CCIPs in their early stages experienced poor outcomes, and they've been wary of trying again since. There is certainly an element of risk that must be accepted in order to reap the rewards of these programs. Current market conditions, however, have significantly mitigated this cost risk if the proper safety elements are in place for best-in-class GCs.

Should the insurance market conditions deteriorate, there is the potential risk for GCs utilizing a CCIP to incur significantly higher costs if loss experience on a project is poor. That said, many GCs still prefer to use a CCIP to take advantage of the risk management benefits even if the CCIP costs are a break-even or are slightly higher than a traditional approach.

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CONCLUSION

The methods to becoming a safer builder are no secret. While we've presented the high-level goals of a CCIP, a risk management expert can walk through the most effective ways to reduce accidents and minimize legal and medical costs when incidents occur.

While CCIPs aren't breaking news, there's a lot that contractors can still learn about making the most of them. With the potential to save millions of dollars on big projects while effectively managing risk, their popularity may continue to rise as more and more large projects become available.

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