CONSTRUCTION PROJECT CONTROLLED INSURANCE PROGRAM (CIP)

Owners, developers, construction managers and general contractors face a host of insurance uncertainties with every project. While no silver bullets can eliminate every uncertainty, a controlled insurance program (CIP) can improve coverage without blowing budgets by consolidating into one program insurance coverages for all project contractors and subcontractors. Also known as a wrap-up, a CIP can be sponsored by a project owner or developer, a construction manager or general contractor. These programs have historically included Workers' Compensation, Employers Liability, General Liability and Excess Liability. Many CIPs today are commonly designed to include only General and Excess Liability. Other project-specific coverages, such as Builders Risk, Environmental Liability and Professional Liability, can easily be added to a CIP.

Without a CIP, each contractor working on a project provides its own insurance and builds the cost for insurance into its bid. With a CIP, the sponsor negotiates and purchases the coverage for all eligible contractors working on the project. In exchange, the sponsor requests an off-set, or insurance credit, from all parties included in the CIP coverage. The credit is equal to the conventional cost of the coverages the separate parties would have been required to buy in the traditional marketplace. For those contractors with a loss-sensitive program, the insurance credit should include expected loss values.

ADVANTAGES	CHALLENGES
Opportunity to reduce the cost of project risks	Internal and external resistance
Project-specific coverage – coverage certainty	Additional administrative burden
Extended Completed Operations coverage to statute of repose	Achieving and verifying savings
Improved claim handling and loss control	
Improved disadvantaged business enterprise (DBE) participation	

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PROSPECTIVE CIP PROJECTS

MULTIPLE PROJECTS

CIPs can be utilized on a variety of projects according to financial, regulatory and market appetite. A CIP can also be designed for a series of smaller projects. Such a program is called a rolling CIP. Rolling CIPs are often sought by owners with several capital expansion projects and by general contractors who want to include a variety of projects.

LARGE PROJECTS

Single projects with construction values in excess of $200 million may be large enough to benefit from economies of scale. However, prevailing Workers' Compensation rates, type of construction, project duration and payroll content (i.e., power plants vs. office buildings) also impact the effectiveness or appropriateness of using a CIP.

MAINTENANCE PROGRAMS

CIPs are not limited to builders. In large facilities (e.g., oil and gas facilities, petrochemical and power plants), where the operations face many risks comparable to those at construction sites, a CIP can often improve coverage and generate potential savings.

HOW DO CIPS WORK?

In the standard insurance paradigm, contractors purchase insurance for all of their work and spread those costs among the projects they work on. Depending on their size, loss history, states of operation and risk appetite, many of these contractors purchase guaranteed cost or low deductible insurance programs. These approaches tend to be expensive but offer the least volatility and risk. The contractor's insurance costs typically range from 1% to 3.0% of the hard construction costs of a project. The insurance costs are loaded into their bid.

CIP sponsors gain coverage and cost advantages by limiting the scope of coverage to the risks associated with a specific project or set of projects and by assuming a high retention or deductible – usually $250,000, $500,000 or $1,000,000 per occurrence. Programs are typically designed with a per-occurrence deductible and maximum stop loss. The sponsor will pay a premium for the fixed costs of insurance and the losses arising out of worker injuries and damages to third parties. Depending on program design, the sponsor can gain significant cash flow by providing collateral (usually a letter of credit or cash) and only paying losses as they occur.

Setting up a CIP requires work; parties must agree in concept and in detail. Balancing program costs against insurance credits is not easy. In some scenarios, the sponsor may lose out. The guidance of an experienced broker can help evaluate the cost implications of a CIP.

STANDARD CIP COVERAGE LIMITS

WORKERS' COMPENSATION		
Part I	Statutory Benefits	
Part II	Bodily Injury Each Accident	$1,000,000
	Disease Policy Limit	$1,000,000
	Disease Each Employee	$1,000,000

GENERAL LIABILITY	
Each Occurrence	$2,000,000
General Aggregate	$4,000,000
Products/Completed Operations Aggregate – Lesser of 10 years or statute of repose	$4,000,000
Personal/Advertising Injury	$2,000,000
Damages to Premises Rented to Your Limit	$100,000–$500,000
Medical Payments – Any one person	$10,000

EXCESS LIABILITY	
$100M or Higher	The amount of CIP excess insurance will depend on the size and complexity of the project. Most projects should carry at least $100,000,000 in coverage because the limits are shared with all enrolled contractors. Specialty CIPs such as General Liability only CIPs on smaller projects may feature lower limits.

GENERAL LIABILITY ONLY CIPS

Cost is not always the chief objective in a CIP. In today's market, many project owners and managers face coverage restrictions, and many sponsors elect to purchase a CIP to improve coverage rather than to achieve savings. Maximum program costs may even exceed conventional costs of insurance. There has been a continued increase in the number of contractors sponsoring CIPs for coverage purposes, as they have begun to recognize that conventional subcontractor insurance is subject to erosion over time and cannot be relied on for protection. When Workers' Compensation isn't economically viable, consider a General Liability only CIP. Through a GL only approach, the sponsor will exercise control over the scope and extent of coverage, will have first named insured rights vs. additional insured status, and will not run the risk of coverage erosion that could arise with traditional policies issued annually. General Liability only CIPs are structured over a primary limit of $1,000,000 to $5,000,000 per occurrence. Retentions begin as low as $25,000 and there is typically no collateral obligation as long as the retention does not exceed $100,000. These programs are usually Excess & Surplus lines placements, and terms can vary.

OWNER VS. CONTRACTOR CONTROLLED INSURANCE PROGRAMS

Controlled insurance programs, or wrap-ups, are a method of insuring the construction project risk of the owner, contractor, and subcontractors of every tier. While the most successful programs inevitably result from a joint effort of all project participants, there are practical considerations that should govern the owner's choice between an owner controlled insurance program (OCIP) or contractor controlled insurance program (CCIP).

ISSUE	OCIP CONSIDERATION	CCIP CONSIDERATION
INSURER SELECTION: Insurers will offer favorable rates, terms, and conditions to parties/projects when losses are controlled and they can expect a fair return on shareholder equity.	Owner may engage more than one insurer in competition for the program and can negotiate lines in addition to the OCIP (e.g., project professional, project environmental, builders risk). The burden is on the owner and project team to convince underwriters that losses will be controlled.	Contractor typically has an established relationship and track record with one insurer that provides coverage for all of its projects. A contractor with a proven ability to control losses may have already negotiated favorable rates, terms, and conditions. An owner should scrutinize the CCIP to determine if this is the case. An owner may direct an insurer competition for a CCIP on its project.
PROGRAM CONTROL:	An owner "owns" the insurance program throughout the life of coverage and therefore is not directly impacted by any change of contractor.	The contractor "owns" the program and controls all aspects of coverage through the extended completed operations coverage. If the owner removes the contractor, the CCIP goes with the contractor.
COVERAGE AND LIMITS: The party that negotiates with the insurer will have the most control over coverage and limits.	Owner should work in concert with other project members to negotiate a program that protects all parties. Limits will be dedicated to the owner's project(s) and will not be eroded by the contractor's losses on other projects. Contractor whose coverage is broader than the OCIP will typically include a DIC charge in its bid so it is important to make sure everything has been addressed up front.	Contractor should work in concert with owner to negotiate a program that protects all parties; however, the contractor may not be able to enroll parties that contract directly with the owner. Limits may apply per project, or may be eroded by losses on other projects. Owner should thoroughly analyze CCIP coverage to ensure that it fulfills its needs and contractual insurance requirements. Owner can request they be a Named Insured on the CCIP.
EXCESS LIABILITY PRICING: Many risk managers believe that a single excess limit (e.g., $100,000,000 with annual reinstatement of limit) may safely be applied to cover multiple projects.	A policy covering a single project will en tail significantly higher premiums (relative to construction value) than those charged when a policy covers multiple projects. An owner with multiple projects may achieve economies by purchasing higher limits and spreading the excess policy over all of them, with annual reinstatement of limits.	Contractor will typically buy a single excess policy to cover all projects in its CCIP, with annual reinstatement of limits. This provides a cost advantage, but also brings with it the risk that the limits will be eroded or even exhausted by losses on other projects. Owner may require a project-specific policy, which is available in the CIP marketplace.

ISSUE	OCIP CONSIDERATION	CCIP CONSIDERATION
RISK/REWARDS OF CIP: A controlled insurance program is a high-deductible program, and therefore favors the party that is able to assume and manage risk.	Risk and rewards are assumed by the owner, who can achieve greatest benefit by giving participating contractors a financial stake through safety and other incentives.	Risk and rewards are assumed by the contractor, who can achieve greatest benefit by giving the owner a financial stake through an open-book shared program or a fixed, guaranteed price break. In some cases contractors will desire to pass as much of the cost as possilbe (program risk) to the owner in their pricing. This increases the opportunity for greater profit.
PROGRAM CASH FLOW: Cash-flow benefits go to the party controlling the funds.	Owner can negotiate terms to spread fixed and variable expenses up front or over the life of the project. Owner provides collateral (typically LOC) for deductible losses. Program remains open until all claims are settled. The sponsor can work with the insurer to develop a buy-out strategy – usually 12 to 18 months beyond construction completion.	Contractor will typically stipulate payment tied to a percentage of progress payments or a pre-set schedule over the life of the project. Unless negotiated into contract, owner can close its books with final contract payment.
ADJUSTMENT OF CONTRACT PRICE: Some or all of the funding for a CIP comes from a reduced contract price, achieved by removing contractors' traditional insurance costs. Whether OCIP or CCIP, contract price (e.g., GMP) should be adjusted to remove the effect of avoided insurance costs ("bid deductions") and CIP costs.	Owner should provide for adjustment of the GMP or lump sum price to reflect removed insurance costs (bid deductions). The price should be adjusted again at the end of the program to reflect actual avoided contractor costs. Failure to do so will result in an unintended costing error to owner or contractor, depending on whether the project finishes on budget.	Contractor may charge a CCIP to the owner as a percentage of total contract value, a specific dollar amount, or on an open-book basis with shared savings. Owner should make sure that allowable charges are understood and monitored, and that deductible losses are not charged back to the job in addition to these amounts.
PROGRAM ADMINISTRATION: The party that purchases the program is responsible for providing for administration.	Owner should work with contractor to establish administrative procedures that complement the contractor's procedures in bid award, contract administration and closeout.	Contractor will typically have established procedures for program administration.

ISSUE	OCIP CONSIDERATION	CCIP CONSIDERATION
CONTROL OF SITE SAFETY: Should an accident occur, it is likely the owner's name, project and circumstances will be all over the news and in print. Studies have shown that an owner who takes an active role in ensuring that safety is managed can cut expected recordable accidents in half, with benefits that reach well beyond deductible losses in an insurance program. A team approach to safety should be employed whether an OCIP, CCIP or traditional insurance program is instituted.	The Contractor is in the best position to manage safety on the project site. The owner should however take an active interest in construction safety. For instance: ■ Require site-specific safety program from GC/ CM ■ Establish minimum safety requirements that also mirror what the insurer will require ■ Set safety as criteria in contractor selection ■ Maintain proactive involvement during construction ■ Require contract language to include enforcement of safety program with consequences ■ Implement safety incentives ■ Include a line item for project safety in the construction budget	Regardless of a CCIP approach, the owner should still take an active interest in construction safety. For instance: ■ Require site-specific safety program from GC/CM ■ Set safety as criteria in contractor selection ■ Maintain proactive involvement during construction ■ Require contract language to include enforcement of safety program with consequences ■ Implement safety incentives
MANAGING CIP CLAIMS: Regardless of who purchases the insurance program, the handling of claims can affect the finances and reputations of all parties involved, including the owner, contractors, and injured third parties and workers.	Owner manages claims to the benefit of injured parties and all project participants and is in the best position to manage public relations. Owner should include contractors in these discussions. They are concerned about their companies' reputations, the well-being of employees, and experience modification factor (EMR), which may affect pricing of their company-specific insurance and are affected by workers compensation losses.	Contractor manages claims, and may do so in a manner to minimize ultimate payout at the expense of other issues such as public relations. Contractor may not feel comfortable including other contractors in the discussion on open claims. Owner should be comfortable with the contractor's approach to claim settlement prior to agreeing to a CCIP.
CLAIMS EXCEEDING POLICY LIMITS: The only liability intrinsically created by a controlled insurance program is that of procuring insurance coverage as required by contract, and paying premiums and deductible losses.	Liability for claims exceeding policy limits remains with the negligent party. Owner should not specify that coverage for work on an OCIP be "excluded" on contractors' corporate programs, as this removes that source of recovery and may imply a limitation of liability.	Liability for claims exceeding policy limits remains with the negligent party.
CONTINUITY OF COVERAGE: Coverage that lapses can create severe problems for the owner and participating contractors.	The owner is responsible for paying all premiums and deductible losses and thereby controls the continuity of the insurance program. Contractors should be provided ample notification in event of cancellation, nonrenewal or material change.	The contractor is responsible for paying premiums and deductible losses. Owner may require ample notification in the event of cancellation, nonrenewal, or material change.

ISSUE	OCIP CONSIDERATION	CCIP CONSIDERATION
COVERAGE OF MULTIPLE CONTRACTS: An owner with an extremely large project that will be conducted in phases, or multiple projects, will likely engage the services of different general contractors.	An OCIP may be written to cover multiple phases or projects with different general contractors. An owner with such projects planned should benefit more from an OCIP.	It is unlikely that all contractors with whom the owner contracts will have a CCIP or that the quality of coverage will be uniform under these separate CCIPs from project to project.

CIP INSURERS

As of 2012, the standard primary CIP market consists of:

- ACE
- Chartis
- ARCH
- The Hartford
- Liberty Mutual
- Old Republic
- Travelers
- Zurich

While all of these markets can be effective doing major projects, each has its own particular appetites.

- Several markets favor contractor-controlled insurance programs (CCIPs). These include Zurich and Travelers. Zurich will play a role on owner-driven projects, but prefers to look at contractor-controlled programs, and Travelers will only support its own insureds when it underwrites CCIPs. Chartis has recently announced that they will be much more aggressive in underwriting CCIP programs as well. *Note these markets do routinely look at their underwriting appetites and will consider an owner-controlled insurance program (OCIP) that fits their underwriting criteria.*
- Hartford re-entered the CIP market through a limited distribution network of select brokers.
- Old Republic initially offered only guaranteed cost programs but transitioned to offering large deductible programs in 2008.
- Back in 2009, Arch created an underwriting unit that was to focus primarily on OCIPs. Before that time, Arch was a heavy player in the CCIP market.
- ACE and Liberty Mutual continue to have a broad appetite for OCIP and CCIP business.

WILLIS: THE LEADER

Willis is one of the largest construction brokers and is a leading producer in the CIP marketplace. Willis' dedicated National CIP Practice team of 35 professionals delivers industry-leading service in:

- Program design, marketing and placement
- Account management
- Quality control and training
- Data management capabilities through our WrapTrac Center
- Technology solutions

WILLIS CIP EXPERIENCE INCLUDES MORE THAN 500 CURRENT OR COMPLETED PROJECTS

- Sports and Entertainment (stadiums/arenas)
- Health Care
- Office and Technology (high-rise/campus)
- Transportation (airports and rail) and Infrastructure
- Residential (single family/multi-family/condo)
- Gaming and Hospitality
- Education Facilities
- Energy (pipelines/power plants)
- Manufacturing and Petrochemical (new/maintenance)

WRAPTRAC CENTER – CENTRALIZED DATA MANAGEMENT

- 10,000 contracts managed
- 7,000 contractors
- Contractor insurance credit and payroll benchmarking
- Maximizing efficiencies and accuracy
- Higher quality of work

This conduit of experience and our One Flag approach ensures that Willis clients have easy access to comprehensive expertise and resources, including superior market strength.

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