

## **Perceived Disadvantages to a Controlled Insurance Program (OCIP, CCIP or Wrap-Up)**

Often times during a presentation to one of our program Sponsors, the question is asked “You’ve explained the advantage to a Controlled Insurance Program, but what are the disadvantages of this program?” The following is our response to this question and concern:

### **Vague Cost Savings**

One of the primary reasons for an organization to consider a Controlled Insurance Program (CIP) is cost savings. Part of the due diligence in developing this type of program is to make sure the projections are realistic and more importantly attainable. A key factor to consider when performing a feasibility study is to first gain a comfort level with the total dollar value of the construction “hard costs” and scope of work. All costs and potential savings will take into consideration these factors. Upfront cost savings will be obtained by purchasing insurance, on a project specific basis, at a lower cost than can be provided by the contractors. By properly taking into consideration these cost factors (trade scope and cost) the bid deduction vs. CIP costs should be positive. On average, the estimated savings related to the volume purchase and underwriter safety credits for a Controlled Insurance Program are .2% to .35% of the project’s construction “hard cost”. An additional 1% savings is also possible with a project’s positive loss experience. Proper planning, implementation and close-out turn “Vague Cost Savings” into “Real Cost Savings”.

### **Duplication of Insurance Costs**

A Controlled Insurance Program does not duplicate a contractor’s insurance cost; it replaces the cost within the parameters of a Sponsor’s construction project. Generally, the coverages provided under a CIP are Workers’ Compensation, General Liability and Excess Liability. The program will replace the coverages provided by the contractor’s master insurance policy. These policies will be owned and controlled by the Sponsor. The only time a duplication of coverage occurs is when a contractor has a flat or minimum premium charge under their master program. Often times, Excess Liability policies are written on this basis. Although rare (less than 1% of the time), when it does occur with the primary policies, the Sponsor should not request an insurance credit from the contractor. If a contractor is unable to provide an insurance credit as a result of their program structure, the Sponsor should not artificially impose an insurance credit onto the contractor.

The advantage of a CIP now becomes control. The CIP will expand the limits of insurance, limit the number of insurance carriers involved on the project, coordinate and consolidate the loss control and claim management procedures and provide the maximum insurance protection of the Sponsor's assets.

### **Impact on Contractor's Program**

A Controlled Insurance Program should not have a negative impact on the contractor's regular insurance program. A key part of the administrative process is to verify the actual insurance costs of the contractor's master program. This verification process will take into consideration all experience modification factors, premium discounts and other credits. By applying the contractor's actual insurance rates, against the actual payroll incurred on the job site, the bid deduction applied will be based on true insurance costs.

An added benefit to the contractor is the loss sensitive aspect of all property casualty insurance programs. The industry average loss ratio under a CIP program is 40%. This compares to a regular insurance program loss ratio of 65%. The favorable loss experience of the CIP carries over to the contractor's regular insurance program.

### **Loss of Contractor Incentive for Loss Control**

As noted in the previous section, because of the loss sensitive aspect of all property casualty insurance programs, contractors do not lose the incentive for loss control. In fact, just the opposite is true. The incentive for loss control and safety is everyone's concern. The CIP program helps the Sponsor and the participating contractors focus on this objective through a coordinated and consolidated process. Loss control is an integral part of a CIP, and as such should receive a high degree of priority and management resources. This is accomplished by proactive involvement on the part of everyone involved in the construction process. Construction Insurance Partners will provide the tools and resources necessary to minimize the loss exposure associated with all construction projects. Please keep in mind that the contractors' actual loss experience under the CIP is still reported to their carrier even though they are not paying the premium costs directly. Typically, the impact is positive because of the "pro-active" loss control approach taken by the Sponsor of the Controlled Insurance Program.

### **Administrative Burden**

The extent to which a Controlled Insurance Program creates an administrative burden on the contractor is the most subjective of the "perceived disadvantages" to address. The information requested is essentially no different than under the normal process. Contractors normally provide proof of insurance and policy limits, as well as, payroll estimates for the contracted work. The CIP requires that this information be provided in greater detail. Construction Insurance Partners' philosophy is to provide value-added



service with minimal disruption to the normal process. The enrollment process has been streamlined to three reports; the Request for Insurance (RFI) form, the Supplemental Bid Information form (SBI Form 1 or Form 1A for self-insured or loss sensitive programs) and a Monthly Payroll Report (MPR). The contractor completes the RFI and SBI Form one time. This occurs at the beginning of enrollment into the program. The Monthly Payroll Report is provided on a monthly basis or on a mutually agreed to schedule with the contractor. This streamlined process should be to everyone's benefit and assures that the information provided is accurate and timely.

### **Summary**

It is our hope that the information provided is beneficial. By taking a non-adversarial approach to the development, implementation and administration of a Sponsor's program, we feel we can accomplish the goals of providing a Risk Management program which allows our Partners to increase their control over their construction projects while at the same time provide expanded limits of coverage with cost savings.