WHITEPAPER

Owner Controlled Insurance Program Benefits

There are various project specific insurance coverages that can be purchased by a project owner during the pre-construction phase of a project. These coverages include Builders Risk, Wrap-Up Liability, Contractors Pollution Liability, Pollution Legal Liability and Professional Liability. When an owner purchases these coverages, the insurance structure for the project is referred to as an Owner Controlled Insurance Program (OCIP). Owners may also elect to allow the General Contractor or Construction Manager to purchase the insurance for the project—this type of structure is referred to as a Contractor Controlled Insurance Program (CCIP). This document will provide owners with an understanding of the two most common coverages and also explore the advantages to both Owners and Contractors of an OCIP.

Common Project Policies:

WRAP UP LIABILITY

A Wrap Up Liability Policy provides protection for the legal liability for bodily injury and property damage to third parties arising from a construction project. Wrap-up policies cover all parties to the contract and are dedicated solely to the project in question; this is a major differentiator over a General Liability policy, which has one limit spread across many different projects a contractor may be providing services to.

Claims Example: A pedestrian passing the project site is injured by the operations (falling material) of any insured party(contractor/owner/engineer/consultant), a wrap-up policy would provide the named insured with defence and pay for damages to the injured third party on behalf of the insured.

Further, a wrap-up liability policy includes completed operations liability—generally for 12 to 36 months beyond substantial completion of the project—which provides protection to the owner and

EXAMPLES OF WRAP-UP POLICY COVERAGES:

- Non-owned automobiles used in conjunction with the project
- Damage to existing structures (Applicable to renovations/additions)
- Limited pollution coverage
- Contractor's Means & Methods Coverage

contractors after everyone has "packed up and gone home" (post completion). Coverage is in place for legal liability that ensues due to the operations that occurred during the construction phase.

Claims Example: A Hospital enters into a contract with a general contractor to build a new wing for the hospital. 8 months after the project is complete a water leak occurs due to a negligently installed pipe in the new mechanical room, causing damage to both the newly completed wing and the existing portion of the hospital. The Builders Risk policy would not provide coverage as that policy has expired; therefore, a claim is submitted to the wrap-up policy by the insured seeking reimbursement for the resulting property damage.

BUILDERS RISK

The Builders Risk policy insures against physical loss or damage to the property while under construction. Coverage is purchased for the full replacement value of the completed structure rather than each contractor insuring their portion of the project. The total contract price, plus the owner's additional values are included in the limit of insurance. The policy can also include limits pertaining to the existing structure and insure the owner for their loss of profits that result from insured losses under the builder's risk policy (delay in Startup coverage).

EXAMPLES OF BUILDER'S RISK POLICY COVERAGES:

- Materials in transit or stored off-site
- Expediting & Extra expenses
- Coverage for damage resulting from design (DE and LEG clauses)
- First party pollutant cleanup
- Testing & Commissioning
- Coverage for LEED building designation
- Coverage for existing structures

Advantages of OCIPs For Owners

SCOPE OF COVERAGE

When buying any type of insurance policy, the breadth of coverage should be the most important factor when comparing quote options. If the owner elects to leave the purchasing of the insurance to the selected contractor, it can often be difficult to tell if the policies meet the insurance requirements the owner has laid out in the tender documents. Often, the project owner will not receive a full copy of the policy for review until long after the project has commenced; by that time the coverage is already in force and changes will need to be made by endorsement at a cost that was not captured in the contractor's contract price. Often, Owners will also want to insure their potential loss of profits. It can be difficult for the contractor to quantify/qualify this risk as it is not the contractors lost revenues at risk and as such inadequate insurance coverages can be placed that leave the owner's balance sheet vulnerable. By placing the coverage for themselves, an owner achieves risk certainty over those risks you are transferring to the insurance carriers and the risks you are assuming.

POLICY LIMITS

"The chain is as strong as its weakest link": smaller sub trades may not have the financial ability to carry the large limits required on a complex or larger project. This exposes both the trade, the general contractor and the owner to uninsured losses in a non OCIP project structure. The project owner will often have greater purchasing power than the smallest sub trades. Under an OCIP structure, this buying power can not only reduce the premium, but also reduce uninsured losses.

RISK AND CLAIMS MANAGEMENT

A single point of contact for claims handling, loss prevention/mitigation and policy administration. Claims are all handled centrally through one point of contact with the owner as opposed to a different point of contact for every trade. While a trade will be focused on completing their particular task on time and on budget, the owner will be looking at the project as a whole from both a project delivery and risk management perspective. Under an OCIP the owner also need not request certificates of insurance for any project specific policies, greatly reducing the administrative burden that a CCIP can involve.

COST

Savings under an OCIP structure are achieved in a number of ways: A) The owner avoids overhead and markups that are applied by the contractors when providing their cost of insurance. B) The owner is purchasing all of the project policies as a single purchaser, premium credits can often be applied when one insurance carrier insurers multiple lines of coverage. Even if different insurers are involved premiums will be lower from each individual insurer as the owner is aggregating the cost of the risk of all parties involved. C) The owner's ability to absorb larger deductibles on project policies

Advantages of OCIPs For Contractors

AVOIDING DISPUTES

By covering all contractors under one insurance program, disputes between contractors, owners and their respective insurers can be avoided. Under a CCIP the owner, contractor and all sub trades will often be represented by various insurers; this can lead to unnecessary finger pointing, drawn out legal disputes and insurance carriers attempting to recover from each other (subrogation).

HIGHER LIMITS OF INSURANCE

Owners will have the ability to purchase higher limits of insurance than the smallest tier sub trades on a project. This allows the smaller trades who could not otherwise meet the insurance requirements to participate on a larger project.

PROTECTING YOUR CLAIMS HISTORY

Claims brought under an OCIP program do not affect a contractors or sub trades loss history experience under their own insurance program. OCIP claims also do not erode the contractors limits under their policies.

SITE SAFETY

An owner providing an OCIP program has the responsibility to ensure that accidents are avoided at all costs for all project participants in order to protect their reputation, avoid fines from the Ministry of Labour and last, but not least, avoid unnecessary claims under their insurance policies, which could affect their pricing on future projects. This bigger picture risk management perspective results in a safer work environment for all parties involved in the project.

A Final Note For Project Owners:

CONTRACTOR COST OF RISK, DIFFERENCE IN CONDITIONS, AND EXCESS LIABILITY CHARGES

Even though the owner absorbs the project specific insurance costs under an OCIP, this does not mean the contractors do not incur insurance costs as well. The policies that a contractor purchases on an annual basis to cover all of their work (whether OCIP or CCIP work) will still be exposed to varying degrees of loss under an OCIP. These coverages can include Commercial General Liability, Automobile Liability, Property Insurance on their own tools/equipment, etc. The top contractors in Canada have turned their insurance/risk management into a profit centre. When pricing the cost of the owner's insurance requirements they will include their overhead, profit, deductibles, funded programs, etc., and charge these costs back to the project owner. Purves Redmond's insurance specialists have the in-house expertise to negotiate with the larger contractors in these situations so that all parties are satisfied with the costs.

Difference in Conditions/Limits/Deductibles (DIC/DIL/DID) coverages are used by contractors to cover the exposure for potential differences between the liability coverages that the contractor normally carries and those that the owner is procuring under an OCIP. Contractor's may also elect to purchase excess insurance if they feel the limits purchased under an OCIP do not align with their risk management principles. Contractors will charge back for Difference in Conditions and Excess Liability costs, these costs can occasionally be drastic. When this issue arises Purves Redmond has the capability to negotiate the DIC/DIL/DID and excess liability contractor charges by tailoring the project specific policies under the OCIP.

Key Mitigation Tools for DIC/DIL/DID and Excess Liability:

- Utilizing a knowledgeable broker that is capable of crafting OCIP's with the broadest possible coverage and keeping your total cost of risk as low as possible.
- Drafting proper insurance requirements, indemnity agreements and risk of loss clauses.
- Involving your broker from the planning stages of a project.
- Clear contractual language surrounding what coverages the contractor may charge back for, as well as noting that any allowable insurance/risk related charge-backs will be benchmarked to ensure they are fair, at the sole discretion of the owner.
- Noting that any additional coverage is at the contractors own cost and must be agreed to by the project owner prior to procurement.

Our Construction Specialists Provide Expert Guidance

BONDING

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