Wrap-Ups: Beyond the Basics from Concept to Closeout

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Wrap-Ups: Beyond the Basics from Concept to Closeout

Module #1

Wrap-Up Introduction and Overview
Session Objectives

• Introduce Wrap-Up Scenarios
• Compare Wrap-Up to Traditional Approach
• Discuss Wrap-Up Success & Wrap-Up Failure
Motivation for Wrap-Up

- Cash
- Coverage
- Control
- Community
- Combination or all of above
Types of Entities Considering Wrap-Ups

- Public Entities
- Private Developers
- Private Owners/Public Corporation
- General Contractors
Wrap-Up Scenarios

I. Tower Development LLC (GL Only OCIP)
II. Sin City LLC (GL Only OCIP)
III. City of New York (OCIP incl. WC)
IV. Green University (OCIP or Rolling OCIP incl. WC)
V. G.C. Builders, Inc. (CCIP incl. WC)
VI. Lakeville Hotel & Casino LLC (OCIP or CCIP incl. WC)
Traditional Method

• Specs include insurance requirements for project
• CM/GC solicits bids from subs for each trade
• Subs prepare bid to provide the req. ins.
• Their bid price includes the cost of their insurance
• Project Owner, CM/GC and Subs each provide their own Workers’ Compensation, General & Excess Liability insurance for the project
• Owner buys insurance from contractors
Advantages of Traditional

- Simple accounting
- No additional administration
Disadvantages of Traditional

- Owner pays various rates for insurance
- Project is covered by many different insurance companies
- Each contractor and their insurance company may have different approaches to safety
- Each contractor may have different limits
Disadvantages of Traditional

- Each contractor may have different coverage or the coverage may exclude certain items, for example, claims arising out of residential construction
- There may be limited or no completed operations coverage
- Additional Insured endorsements may be inadequate
- Claims administration & litigation may be more complex due to multiple parties
Advantages of Traditional

**Contractor Participants**

- Simple accounting
  - Maintain lump sum bidding protocol
- No additional administration
Disadvantages of Traditional Contractor Participants

- Inability to obtain required coverage
  - Completed operations
  - Additional insured
OCIP Method

- Project owner provides certain insurance for the project on behalf of the CM/GC and Subcontractors
- CM/GC and subcontractors remove their insurance cost from their bids
- Project owner buys insurance for contractors
Advantages of OCIP

Potential cost savings due to economies of scale
Coverage certainty & uniformity
  – Completed operations coverage extension
Collaborative approach to safety
Improved claims handling
Streamlined/reduced litigation
Potential to use smaller contractors
Disadvantages of OCIP

**Project Owner/Sponsor**

- Financial
  - Risk of maximum program cost
  - Large initial cash outlay
  - Higher cost for stand alone/individual project
  - Variable cost to owner due to
    - Final program audit (Payroll or CV)
    - Claims activity
  - Cost of administration
Disadvantages of OCIP

Financial (Continued)

- Deductible obligation
- Long term LOC requirement
- Long term claim liability
- Uncertainty as respects subcontractor credits
- Increased responsibility/liability to contractors as respects the program coverage’s terms and conditions
Disadvantages of OCIP

Project Owner/Sponsor

• Administrative-Time & personnel required
  – Meetings with Administrator
  – Potential conflicts with contractors regarding credits
  – Claim activity review
  – Deductible payment review
Disadvantages of OCIP

Project Owner/Sponsor

• Involvement in and commitment to safety program to ensure successful program
  – Meetings
  – Safety awareness efforts
  – Training /Orientation
  – Potential OSHA involvement
Advantages of OCIP

- Coverage certainty & uniformity
  - Completed operations coverage extension
- Collaborative/improved approach to safety—may benefit experience modification factor
- Potential for improved claims handling
Disadvantages of OCIP

- Potential coverage gaps
- Rate disclosure
- Financial
  - Increased cost
  - Removal of profit potential
- Lack of control
Disadvantages of OCIP

Contractor Participants

• Administrative burden
  – Document review
  – Enrollment
  – Credit calculation/removal
  – Payroll reporting
  – Complex WC claims history
  – Interact with another broker/firm
CCIP Method

- CM/GC provides certain insurance for the project on behalf of Project Owner and Subcontractors
- CM/GC may reduce the contract price to owner
- Subcontractors remove their insurance cost from their bids
Advantages of CCIP

- Realize wrap-up benefits without financial risk
- Avoid all disadvantages of OCIP
- CCIP may utilize higher rated carrier than one time OCIP
Disadvantages of CCIP

- Cost-Possibility of being charged maximum or high rate by CM/GC
- Cost-CCIP may be higher cost than OCIP if losses are low
- Cost-If project has a residential component- may be more costly than traditional method
Advantages of CCIP

CM-GC/Sponsor

- Coverage certainty & uniformity
  - Completed operations coverage extension
- Collaborative approach to safety
- Improved claims handling
- Streamlined/reduced litigation
- Possibility of increased profit
Disadvantages of CCIP

CM-GC/Sponsor

- Financial
  - Risk of maximum program cost
  - Large initial cash outlay
  - Variable cost due to
    - Final program audit (Payroll or CV)
    - Claims activity
  - Cost of administration
Disadvantages of CCIP

- Financial (Continued)
  - Deductible obligation
  - Long term LOC requirement
  - Long term claim liability
  - Uncertainty as respects subcontractor credits
  - Increased responsibility/liability to contractors as respects the program coverage’s terms and conditions
Disadvantages of CCIP

- Administrative - Time & personnel required
  - Meetings with administrator
  - Potential conflicts with subcontractors regarding credits
  - Claim activity review
  - Deductible payment review
Disadvantages of CCIP

- **Safety**
  - Requires greater emphasis on control of risk as respects subcontractors
<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Coverage certainty &amp; uniformity</td>
<td>• Potential coverage gaps</td>
</tr>
<tr>
<td>– Completed operations coverage extension</td>
<td>• Rate disclosure</td>
</tr>
<tr>
<td>• Collaborative/improved approach to safety-may benefit experience</td>
<td>• Administrative burden</td>
</tr>
<tr>
<td>modification factor</td>
<td>– Enrollment</td>
</tr>
<tr>
<td>• Potential for improved claims handling</td>
<td>– Credit calculation</td>
</tr>
<tr>
<td></td>
<td>– Payroll reporting</td>
</tr>
<tr>
<td></td>
<td>– Complex WC claims history</td>
</tr>
<tr>
<td></td>
<td>– Interact with another broker/firm</td>
</tr>
<tr>
<td></td>
<td>• Lack of control</td>
</tr>
</tbody>
</table>
Success Priorities

• Project Completed on Time … on Budget
• Certain, Improved or Additional Coverage
• Effective Administration, Safety & Claims Management
• Enhanced Public Relations
• Lowest Possible Cost
Obstacles to Success

• Faulty Expectations
• Lack of Commitment to Safety
• Lack of Experience or Preparedness
• Lack of Attention
• Focus
  – Insurance is only 3% – 6% of job cost
• Conflicting Agendas
Wrap-Up Failure

• What constitutes a failure?
• What causes a failure?
• What mitigates a failure?
Wrap-Ups:

Module #2

Wrap-Up Market
Agenda

- Market Statistics
- Coverage and Pricing Trends
- Emerging Market Conditions
Roughly 70B – 80B in construction nationwide
  – OCIP and CCIP
  – Roughly 40% - 50% of available construction insurance premiums
    • **1.9B in total premiums**
Every sizeable GC is either implementing or looking to have a CCIP program
Any project over +100MM is considering a wrap
Every residential project will consider a wrap
Marketplace Trends

• Residential Wraps
  – Drivers:
    • Price – as low as possible
    • Coverage – as low as possible
    • Collateral Issues – old programs maturing
  – Residential Work is down across the country
  – Who is writing: E&S Markets are still strong
Marketplace - Trends

• Commercial Wraps
  – Drivers:
    • Price: Must be comparable to traditional pricing
    • Coverage: Maximize against traditional coverage
  – Recession hangover – hit about 12 months from now
  – Who is writing: Soft market - more competition
Marketplace - Trends

• New Wrap Markets – Industrial and Chemical
  – Drivers:
    • Mega projects size – 500+MM
    • Price: very competitive – Losses better than average
    • Coverage: Maximize where possible
  – Availability of funds is driving building activity
  – Who is writing: All major carriers
Insurer Capacity

• Who is writing: Primary Limits
  – ACE
  – AIG
  – Liberty Mutual
  – Seabright
  – Travelers
  – Zurich

• More options for WC-only and GL-only programs

• Rolling programs can be more difficult to place
  – Requires more active underwriting and commitments
Insurer Capacity

- Who is writing: Excess Limits
  - ACE
  - AIG
  - Bermuda Markets
  - Liberty Mutual
  - London Markets
  - Swiss Re
  - Zurich

- Many excess carriers DO NOT support rolling
More Options Available

• Full brokerage services
  – Big three (Aon, Willis, Marsh)
  – Regional (McGriff, Gallagher, many others)

• Pure broker administration
  – Regional brokers place business
  – Administrators handle day-to-day activities
  – Web-based capabilities allow more control
Wrap Marketplace Trends

• **Owners more educated**
  – Limits – asking for more
  – Administrative costs
  – Coverage – more detailed

• **GC’s and Sub’s more educated**
  – Pushing requirements/needs
  – Understanding costs/risks

• **Electronic information more accessible**
  – Administration Web based – so long Excel spreadsheets
  – Insurance Carriers – transmitting electronically
Soft market has its benefits
- More coverage at better prices
  - Extended completed operations
  - Lead, silica, pollution exclusion can be removed
  - Potential for EIFS
- 10% - 15% Reductions are common
- Loss aggregates anywhere from 6.00 – 12.00 (100 p/r)

Must underwrite the risk
Wrap Coverage – Sub’s

• More options available – good and bad
  – Coverage for off-site exposures available – good
  – DIC coverage available for subs – good
  – Administration easier - good
  – Additional insured coverage limited – bad
  – Limitations on completed operations – bad

Subs must be diligent reviewing all programs to ensure proper coverage and control!!!
Wrap Up - Marketing

• Getting a Successful Result
  – Safety first and foremost
    • 6 ft fall, pre-planning, monthly monitoring
  – Complete submissions
    • Commitment to risk management controls and safety
    • Well-thought-out coverage requirements

• Tell Your Story
  – Personalize your submission
  – Detail staff support that is in place
  – Show coordination of team members
Wrap Up - Marketing

- Establish Relationship with Carrier
  - Dog and pony shows can be effective
    - Show off your work
    - Makes your insurance carrier selection easier
  - Meet entire insurance team
    - Underwriter, Claims, Safety
    - Back room support operations
- Relationships Help in Future Endeavors

It’s a small world and we can use all the support we can get
Wrap-Ups: Beyond the Basics from Concept to Closeout

Module #3

Wrap-Up Feasibility
Session Objectives

• Define/discuss purpose of feasibility
• Discuss considerations & processes
• Apply considerations & processes to various scenarios
Feasible

• feasible
• –adjective
• 1. capable of being done, effected, or accomplished: a feasible plan.
• 3. suitable: a road feasible for travel.

Modern Language Association (MLA):
Pro Forma

- pro for·ma
- –noun
- 3. Accounting. indicating hypothetical financial figures based on previous business operations for estimate purposes: a pro forma balance sheet.

Motivation for Wrap-Up

- Cash
- Coverage
- Control
- Community
- Combination or all of above
Cash/Savings Model

What the contractors would have charged in their bids for insurance

Minus

What the sponsor pays for the wrap-up program

Equals

Savings (or not)
Contractors Insurance Cost

- Simple-Use generic composite rates to assess costs
- Detailed-Estimate payroll by class code
Program Cost

- Estimate unburdened payroll
- Fixed insurance cost
  - Workers compensation
  - General liability
  - Umbrella/excess
- Loss cost
- Administration cost
  - Broker/Administrator
  - Safety
Coverage Model

- Contractors are not able to provide coverage for project
- Contractors are not able to provide adequate coverage for project
Wrap-Up Type

- Includes Workers’ Compensation
- General/Excess Liability Only
Feasibility Considerations

- Regulatory
- Project size
- Project term
- Project control
- Sponsor risk tolerance
Other Feasibility Considerations

- Schedule
- Location/site-city or rural
- Safety program enforcement
- Drug testing
- 6 foot fall protection
- Orientation
- Experience of teams
- Workforce/market
- Pre-qualification of subs

- Claims management
- Ability to direct care
- Medical trailer
- Return to work
- Jobsite parking
- On site administration
- New vs. rehab
- Adjacent property(s)
- Public exposure
- Weather
Wrap-Up Scenarios

- Tower Development LLC (GL Only OCIP)
- Sin City LLC (GL Only OCIP)
- City of New York (OCIP incl. WC)
- Lakeville Hotel & Casino LLC (OCIP or CCIP)
- Green University (OCIP or Rolling OCIP incl. WC)
- G.C. Builders, Inc. (CCIP or Rolling CCIP)
## Tower Development LLC (GL Only OCIP)

<table>
<thead>
<tr>
<th>Project Type</th>
<th>150 unit high end condo project in FL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard Cost</td>
<td>$100,000,000</td>
</tr>
<tr>
<td>Other</td>
<td>Excellent reputation, has GC entity, core sub group, values relationships with subs</td>
</tr>
<tr>
<td><strong>Project Type</strong></td>
<td>224 Unit condo project in NV</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td><strong>Hard Cost</strong></td>
<td>$70,000,000</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>New developer, no existing sub relationships, wants to shut down LLC ASAP</td>
</tr>
</tbody>
</table>
City of New York (OCIP incl. WC)

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Convention center project in New York</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard Cost</td>
<td>$400,000,000</td>
</tr>
<tr>
<td>Other</td>
<td>CM/GC not selected, wants to utilize DBE contractors, wants to conduct broker selection</td>
</tr>
</tbody>
</table>
Lakeville Hotel & Casino LLC (OCIP or CCIP incl. WC)

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Casino project in MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard Cost</td>
<td>$275,000,000 over 20 months</td>
</tr>
<tr>
<td>Other</td>
<td>Owner broker proposing OCIP, CM/GC offering CCIP</td>
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</tbody>
</table>
Green University (OCIP or Rolling OCIP incl. WC)

<table>
<thead>
<tr>
<th>Project Type</th>
<th>University student center or series of projects-GA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard Cost</td>
<td>$90,000,000 or $350,000,000</td>
</tr>
<tr>
<td>Other</td>
<td>New to wrap-ups</td>
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<tr>
<td>Project Type</td>
<td>Series of projects-CO</td>
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<tr>
<td>---------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Hard Cost</td>
<td>$350,000,000 over 3 years</td>
</tr>
<tr>
<td>Other</td>
<td>New to wrap-ups, sub insurance is increasingly inadequate, great relationships with its core subs, regional broker with no wrap-up dept.</td>
</tr>
</tbody>
</table>
PREDICTION

What the contractors would have charged in their bids for insurance

Minus

What the sponsor pays for the wrap-up program

Equals

Savings (or not)
Lakeville Hotel & Casino LLC

What the contractors would have charged in their bids for insurance

• Estimated payroll @26%-$71,500,000
• Estimated composite rate on payroll @ $14.67

Estimated Contractors Insurance Cost
$10,495,800
What the sponsor pays for the wrap-up program (Fixed Costs)

- Estimated CV $275,000,000
- Estimated unburdened payroll @26%-$71,500,000

Lakeville Hotel & Casino LLC
Lakeville Hotel & Casino LLC

What the sponsor pays for the wrap-up program (Fixed Costs)

- WC & GL fixed rate @$3.50* = $2,502,500
- Umbrella/Excess @$100M = $ 800,000
- Premium Taxes & Assessments = $ 320,000
- Subtotal = $3,622,500

*$500,000 Deductible Program
What the sponsor pays for the wrap-up program (Fixed Costs)

- Broker Administration = $400,000
- Owner Administration = $410,000
- Subtotal = $810,000

Total Estimated Fixed Costs $4,432,500
## What the sponsor pays for the wrap-up program (Loss Costs)

- **Payroll @$$71,500,000$$**
- **Expected Losses**
  - @ $$5.00$$ Loss Rate (on Payroll) = $$3,585,000$$
  - **Loss Handling@10%** = $$357,500$$

**Total Loss Cost@ Expected** $$3,942,500$$
Lakeville Hotel & Casino LLC

**PREDICTION**

What the contractors would have charged in their bids for insurance

Minus

What the sponsor pays for the wrap-up program

Equals

Savings (or not)

---

Estimated Contractors Insurance Cost

$10,495,800

Minus

Total Estimated Fixed Costs $4,432,500

Total Loss Cost@ Expected $3,942,500

Total Program Cost@ Expected Losses

$8,375,000

Equals

Estimated Savings @Expected

$2,120,000
## Lakeville Hotel Casino

### Estimated Results at Various Loss Levels

<table>
<thead>
<tr>
<th>Estimated Contractor Credit</th>
<th>Loss Rate</th>
<th>Est. Losses</th>
<th>Loss Handling @10%</th>
<th>Total Loss Cost</th>
<th>Total Estimated Fixed Cost + Other Costs</th>
<th>Total Estimated Program Cost</th>
<th>Estimated Savings (Or not)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,495,800</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$4,432,500</td>
<td>$4,432,500</td>
<td>$6,063,300</td>
</tr>
<tr>
<td>$10,495,800</td>
<td>$1.00</td>
<td>$715,000</td>
<td>$71,500</td>
<td>$786,500</td>
<td>$4,432,500</td>
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<td>$10,495,800</td>
<td>$2.00</td>
<td>$1,430,000</td>
<td>$143,000</td>
<td>$1,573,000</td>
<td>$4,432,500</td>
<td>$6,005,500</td>
<td>$4,490,300</td>
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<tr>
<td>$10,495,800</td>
<td>$3.00</td>
<td>$2,145,000</td>
<td>$214,500</td>
<td>$2,359,500</td>
<td>$4,432,500</td>
<td>$6,792,000</td>
<td>$3,703,800</td>
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<tr>
<td>$10,495,800</td>
<td>$4.00</td>
<td>$2,860,000</td>
<td>$286,000</td>
<td>$3,146,000</td>
<td>$4,432,500</td>
<td>$7,578,500</td>
<td>$2,917,300</td>
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<tr>
<td>$10,495,800</td>
<td>$5.00</td>
<td>$3,575,000</td>
<td>$357,500</td>
<td>$3,932,500</td>
<td>$4,432,500</td>
<td>$8,365,000</td>
<td>$2,130,800</td>
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<td>$10,495,800</td>
<td>$6.00</td>
<td>$4,290,000</td>
<td>$429,000</td>
<td>$4,719,000</td>
<td>$4,432,500</td>
<td>$9,151,500</td>
<td>$1,344,300</td>
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<td>$500,500</td>
<td>$5,505,500</td>
<td>$4,432,500</td>
<td>$9,938,000</td>
<td>$557,800</td>
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<td>$10,495,800</td>
<td>$8.00</td>
<td>$5,720,000</td>
<td>$572,000</td>
<td>$6,292,000</td>
<td>$4,432,500</td>
<td>$10,724,500</td>
<td>(228,700)</td>
</tr>
<tr>
<td>$10,495,800</td>
<td>$9.00</td>
<td>$6,435,000</td>
<td>$643,500</td>
<td>$7,078,500</td>
<td>$4,432,500</td>
<td>$11,511,000</td>
<td>(1,015,200)</td>
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<tr>
<td>$10,495,800</td>
<td>$10.00</td>
<td>$7,150,000</td>
<td>$715,000</td>
<td>$7,865,000</td>
<td>$4,432,500</td>
<td>$12,297,500</td>
<td>(1,801,700)</td>
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<tr>
<td>$10,495,800</td>
<td>$11.00</td>
<td>$7,865,000</td>
<td>$786,500</td>
<td>$8,651,500</td>
<td>$4,432,500</td>
<td>$13,084,000</td>
<td>(2,588,200)</td>
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<tr>
<td>$10,495,800</td>
<td>$12.00</td>
<td>$8,580,000</td>
<td>$858,000</td>
<td>$9,438,000</td>
<td>$4,432,500</td>
<td>$13,870,500</td>
<td>(3,374,700)</td>
</tr>
</tbody>
</table>
Feasibility Best Practices

• Consider the definition of success
• Consider all alternatives (traditional, CCIP)
• Consider sponsor risk tolerance
• Consider hidden costs
• Consider participants & their effect on the success of the program
• View several loss scenarios plus max
• Always propose high limits
• Be sure to add adequate disclaimers-Savings can never be guaranteed
What Contractors Charge

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Rate</strong></td>
<td>$29.07</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
</tr>
<tr>
<td>Welfare Fund</td>
<td>$7.20</td>
</tr>
<tr>
<td>Pension</td>
<td>$7.05</td>
</tr>
<tr>
<td>Vacation</td>
<td>$-</td>
</tr>
<tr>
<td>Other: Annuity Fund</td>
<td>$8.05</td>
</tr>
<tr>
<td>Other:</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total of Above</strong></td>
<td>$22.30</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$51.37</td>
</tr>
<tr>
<td><strong>P.R. Taxes (FICA &amp; Unemployment)</strong></td>
<td>$1.80</td>
</tr>
<tr>
<td>% of Item 1 only</td>
<td>6.2%</td>
</tr>
<tr>
<td><strong>Labor Insurance</strong></td>
<td>$6.69</td>
</tr>
<tr>
<td>% of Item 1 only</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Overhead &amp; Profit</strong></td>
<td></td>
</tr>
<tr>
<td>(3+4+5) X 15%</td>
<td>$8.98</td>
</tr>
<tr>
<td><strong>Total Straight Time</strong></td>
<td>$68.84</td>
</tr>
</tbody>
</table>

WC insurance cost embedded in wage rate
## Unburdened Payroll/Labor

### Steel Contracting Services, Inc.
**Package: Structural Steel**  
**Labor Classification: Ironworker General Foreman**

<table>
<thead>
<tr>
<th></th>
<th>Straight Time</th>
<th># of Hours</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Base Rate</td>
<td>$29.07</td>
<td>1000</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare Fund</td>
<td>$7.20</td>
<td></td>
<td></td>
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<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total of Above</td>
<td>$22.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Subtotal</td>
<td>$51.37</td>
<td></td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>P.R. Taxes (FICA &amp; Unemployment)</td>
<td>$1.80</td>
<td></td>
</tr>
<tr>
<td>% of Item 1 only</td>
<td>6.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Labor Insurance</td>
<td>$6.69</td>
<td></td>
</tr>
<tr>
<td>% of Item 1 only</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>Overhead &amp; Profit (3+4+5) X 15%</td>
<td>$8.98</td>
<td></td>
</tr>
<tr>
<td><strong>7</strong></td>
<td>Total Straight Time</td>
<td>$68.84</td>
<td>1000</td>
</tr>
</tbody>
</table>

**Actual Insurance Rate:** $6.69 X 1.15 = $7.69

- Base wage rate multiplied by the number of work hours equals estimated unburdened payroll
- Total wage rate multiplied by the number of work hours equals estimated labor cost
## What Contractors Charge versus Pay for Insurance - Hours=15,480

### INSURANCE COST CALCULATION WORKSHEET

**Name:** Steel Contracting Services, Inc.  
**Subcontractor To:** General Contractor

<table>
<thead>
<tr>
<th>WC Classification</th>
<th>Estimated Payroll</th>
<th>WC Rate</th>
<th>Manual WC Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural Steel</td>
<td>$450,000*</td>
<td>$25.00</td>
<td>$98,460.00</td>
</tr>
</tbody>
</table>

### MODIFICATIONS TO TOTAL MANUAL PREMIUM

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor/Percentage</th>
<th>Amount +/-</th>
<th>Revised Prem.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Limits Factor</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience Modification Factor</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule Credit/Debit</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium Discount</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment Factor</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Calculations

- **Actual Insurance Rate CHARGED:** $6.69
  - Or $6.69 x 1.15 = $7.69
  - $7.69 x 15,480 = $119,041

### Tables

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor/Percentage</th>
<th>Amount +/-</th>
<th>Revised Prem.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Straight Time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Base Rate</td>
<td>$ 29.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare Fund</td>
<td>$ 7.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td>$ 7.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vacation</td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other: Annuity Fund</td>
<td>$ 8.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other:</td>
<td>$ -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total of Above</td>
<td>$ 22.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Subtotal</td>
<td>$ 51.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 P.R. Taxes</td>
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<td></td>
</tr>
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<td>6.2%</td>
<td></td>
<td></td>
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<td></td>
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<tr>
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<td></td>
</tr>
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<td>$ 8.98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3+4+5) X 15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Total Straight Time</td>
<td>$ 68.84</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Actual Insurance Rate CHARGED: $6.69  
Or $6.69 x 1.15 = $7.69  
$7.69 x 15,480 = $119,041

---

*$29.07 X 15,480 Hours = $450,000
## Alternate Worksheet Type

### LABOR WAGE RATE WORKSHEET

<table>
<thead>
<tr>
<th>COST ITEM</th>
<th>Col A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Straight time</td>
<td></td>
</tr>
<tr>
<td>BASE RATE (Hourly wage per 40 hr week)</td>
<td>$35.89</td>
</tr>
<tr>
<td>TAXES, etc.</td>
<td>$1.44</td>
</tr>
<tr>
<td>FICA</td>
<td>$2.75</td>
</tr>
<tr>
<td>Federal Unemployment</td>
<td>$0.28</td>
</tr>
<tr>
<td>State Unemployment (State of ...)</td>
<td>$2.51</td>
</tr>
<tr>
<td><strong>INSURANCE</strong></td>
<td></td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>$1.92</td>
</tr>
<tr>
<td>General Liability</td>
<td></td>
</tr>
<tr>
<td>Umbrella/Excess Liability Insurance</td>
<td></td>
</tr>
<tr>
<td>Disability Insurance</td>
<td></td>
</tr>
<tr>
<td>Contributions (please list) Health &amp; Welfare, etc.</td>
<td>$17.30</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td>$62.09</td>
</tr>
<tr>
<td><strong>OVERHEAD &amp; PROFIT @15%</strong></td>
<td>$9.31</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$71.40</td>
</tr>
</tbody>
</table>

*Example Only-Not real rates or factors*

Includes more breakdown for insurance items
Module #4

Wrap-Up Coverage and Gaps - Part I
Module Objectives

- Understand ideal coverage under wrap-ups
- Understand difference in coverage between corporate and wrap-up insurance programs
- Identify potential gaps created by
  - Length of coverage
  - Location of coverage
  - Exclusions (corporate and wrap-up)
Corporate Insurance Program

Owner

Workers’ Comp Coverage
CGL Coverage
Employers’ Liability Coverage

General Contractor

Workers’ Comp Coverage
CGL Coverage
Employers’ Liability Coverage

Subcontractors

Workers’ Comp Coverage
CGL Coverage
Employers’ Liability Coverage

Owner is AI

Owner is AI

GC is AI
Wrap-Up Insurance Program

- Insurer
  - CGL/Excess
    - Owner
    - General Contractor
    - Subcontractors
  - Workers’ Comp
    - Owner
    - General Contractor
    - Subcontractors
  - Employers’ Liability
    - Owner
    - General Contractor
    - Subcontractors
Wrap-Up Goals

- Save premium dollars
- Improve insurance coverage
- Improve jobsite safety
- Improve claims outcome
- Reduce defense costs
Fact Pattern

- $200M commercial job
- CCIP
  - $200M limits
  - Sponsor responsible for $250K deductible
- Enrolled Subcontractor’s employee seriously injured on site
  - Claim filed against Owner and G.C. (settlement value= $750K)
  - W.C. claim filed against Subcontractor
Claim Example 1
Wrap-Up Coverage

Wrap-Up Advantages

- Joint defense between Owner & G.C.
- No cross-claims between Owner & G.C.
- No cross-claim against Subcontractor
- No indemnification issues
- No additional insured issues
Avoiding Gaps in Coverage

Coverage Gap

Corporate Insurance

Liability

Wrap-up Insurance
Potential Wrap-Up Gaps

Coverage

Scope

- Project location description
  - Off-site exposures

- Length of coverage

  - Completed operations

Who should be enrolled?

Limits and deductibles
Potential Wrap-Up Gaps

Exclusions

- Asbestos and Nuclear
- EIFS
- Professional Liability/ Architects & Engineers
- Pollution Except Hostile Fire
- Automobile Liability
Coverage Provided By Enrolled Contractor

<table>
<thead>
<tr>
<th></th>
<th>Wrap-Up Certificate</th>
<th>Corporate Certificate</th>
</tr>
</thead>
<tbody>
<tr>
<td>WC</td>
<td>On-site</td>
<td>Off-site</td>
</tr>
<tr>
<td>GL</td>
<td>On-site</td>
<td>Off-site</td>
</tr>
<tr>
<td>Auto</td>
<td>No Coverage</td>
<td>On- &amp; Off-site</td>
</tr>
<tr>
<td>Umbrella</td>
<td>On-site</td>
<td>Off-site</td>
</tr>
</tbody>
</table>

REQUIRED ENDORSEMENTS
- Additional Insured
- Primary/Noncontributory
- Cancellation Amendment
- Waiver of Subrogation
- Per Project Aggregate
Completed Operations

Corporate insurance policy covers completed operations for that policy year only.
**Corporate CGL Policy**

- **Excludes**
  - Wrap-up project by name
  - Blanket wrap-up exclusion

- **Covers**
  - Period beyond completed operations
  - Above wrap-up limits
  - Insolvent wrap-up
  - May drop down if wrap-up excludes coverage
Corporate CGL  Endorsement #1

Excludes:
“ongoing operations or operations included in the ‘products-completed operations hazard’ ... as a consolidated insurance program has been provided.”

Corporate insurance may cover completed operations period from year 3 through year 13
Excludes:
“any Wrap-Up that You are or ever were involved in.”
Corporate CGL  Endorsement #3

Excess to:
“Wrap-Up… in which You are, were, or became a participant”

✓ Best coverage possible
✓ Provides coverage on a DIC basis
✓ Can be provided (ask!)

Corporate insurance **will** cover any claims in year 3 through year 13 along with any excess coverage during construction
### Where is the Coverage?

<table>
<thead>
<tr>
<th></th>
<th>Wrap-Up</th>
<th>End. #1</th>
<th>End. #2</th>
<th>End. #3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Early wrap-up termination</strong></td>
<td>X</td>
<td>?</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Punch-list</strong></td>
<td>✓</td>
<td>X</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Warranty work</strong></td>
<td>?</td>
<td>?</td>
<td>X</td>
<td>✓</td>
</tr>
</tbody>
</table>
Other Potential Coverage Gaps

- Wrap-up coverage limited
  - Only WC and GL
  - Wrap-up limits shared and/or insufficient
  - Professional and pollution exposures
Contractual Indemnity Coverage

- What is contractual indemnity?
- How is it covered?
Additional Insured Coverage

When is AI relevant in a wrap-up?

- Unenrolled subs
- Off-site
Questions
Wrap-Ups: Beyond the Basics from Concept to Closeout

Module #4

Wrap-Up
Coverage and Gaps - Part 2
Example 2
Unenrolled Subcontractor (CCIP)

GC (Sponsor)

Off-site Fabricator
Prime Sub (Unenrolled)

On-site Erector
Sub-sub (Enrolled)

Suit for wrongful death
Erector’s employee dies from injuries on-site

Insured Contract
Traditional - BI
Wrap-Up - BI

Blanket AI Endorsement
Additional Named Insured Schedule

Suit for indemnification and AI
Example 2
Unenrolled Subcontractor

Issues to Consider

- AI and indemnity issues still a factor with wraps
- There may be coverage for unenrolled subs
- Need to balance whether to enroll off-site subs
Example 3  
Damage from Warranty Work (OCIP)

- **Developer** (Sponsor)
  - PD Suit against Electrical Sub
  - GC
  - Electrical Sub
  - PD Suit against Electrical Sub
  - HOA/Unit Owner

- Traditional - PD
- Wrap-Up - PD
**Example 3**

**Damage From Warranty Work**

- **10/1/05**
  - Electrical Sub works on floors 1-10

- **11/30/05**
  - Electrical Sub works on floors 11-40

- **12/1/05**
  - Unit Owner on floor 9 requires electrical warranty work

- **12/7/05**
  - Electrical Sub warranty work damages sprinkler- PD: floors 1-9

- **1/15/06**
  - Electrical Sub warranty work

- **2/22/06**
  - HOA/Unit Owner/Developer sue Electrical Sub for PD

- **5/30/06**

**Wrap Coverage Endorsement**

- **Traditional - PD**
- **Wrap-Up - PD**
- **Example 3**
Example 3
Damage from Warranty Work

Issues to Consider

- The structure of wrap-up policies vs. traditional policies can affect coverage.
**Example 4**

Unenrolled Statutory Employee

Prime Sub  
(Enrolled)

Sub-sub seeks coverage through Prime Sub

Sub-sub Sole Proprietor  
(Unenrolled)

Injured Sub-sub files claim under corporate WC policy

Coverage denied for non-payment of premium

Enrolled Prime Sub considered statutory employer

Wrap-Up Policy

Corporate WC Policy
Example 4
Unenrolled Statutory Employee

- 1/1/05 Unenrolled Sub-sub injured
- 4/1/05 Sub-sub files claim under corporate WC policy
- 4/15/05 Coverage denied for non-payment of premium
- 5/1/05 Sub-sub files claim under wrap-up policy as statutory employee
Example 4
Unenrolled Statutory Employee

Issues to Consider

- Monitoring coverage and certificates of insurance still necessary even when project has a wrap
Example 5
Lay Down Area Incident

Sub
(Employer)

Employee
injured moving
material

Lay Down Area

On-site/Off-site

Project Address

Wrap-Up – BI
Example 5
Laydown Area Incident

Issues to Consider

- Definition of project site cannot be overlooked and must consider how the project will be executed
Benefits of Wrap-Ups

- Reduced litigation
- Compliance with regulatory standards
- Control of insurance coverage handling
- Cost control
- Ability to employ small contractors
Limitations of Wrap-Ups

- Project size
- Control of work
- Legal jurisdiction
- Ability to administer wrap-up features
Check List for Wrap-Up Coverage

Scope

Project Location Description
- Off-site Exposures

Length of Coverage
- Completed Operations

Coordination of Corporate Program
Questions

Example 2

Example 3

Example 4

Example 5

Traditional Insurance – BI
Wrap-Up Insurance – BI
Traditional Insurance – PD
Wrap-Up Insurance – PD
Wrap Coverage Endorsement
Wrap Coverage Endorsement – Named Insured
Wrap-Up Manual
Blanket AI Endorsement
Insured Contract
Contractual Indemnification
Wrap-Ups:

Module #5

Managing Safety and Claims in a Wrap-Up
Module Objectives

- Understand Importance
- Discuss Best Practices
- Review Pitfalls
Safety and Claims – Maximizing Results

- Realize it can make or break your program
- Everything else can go wrong – but if safety and claims are done well then the program will succeed
- Must establish partnership approach
  - Owner/GC/Subs/Insurance Company
Safety Management
Safety Prioritization

- Safety Orientations
- Safety Monitoring
- 6’ Fall Protection
- Full Time Safety Person
- Pre-planning
- Purchasing – Sub Prequal
- Experienced Staff
- Appropriate Job Schedule
- Drug Testing
- Medical Trailer
- Crisis Management Program
- Safety Accountability
The Business of Safety

• Develop a Plan
  – Not just the heath and safety plan
  – Logistics should cover - who/how/why
  – Communicate that plan to everyone

• Measure Milestones
  – Meet regularly to review outcomes

• Provide Report Card
The Business of Safety

• Initial Set-Up a Must
  – Orientation with team
  – Establish/review drug and alcohol policy
  – Medical Trailers, etc.

• Communicating Responsibilities
  – All project team members to be included
  – Who will do what
  – Dates and times
The Business of Safety

• Identify Critical Job Milestones
  – Pre-plan around these dates
  – Coincide with project buyout/deliverables
  – Include safety review meetings in job schedules

• Monitoring
  – Be prepared to alter your “Business of Safety” plan
Safety – Communication

- Safety program is first in bid documents
- Safety is included at every meeting
- Ongoing site safety evaluations and trends
- Identification and monitoring of key trades
Safety Keys to Success – Purchasing

- Purchasing must be part of internal team
  - Must understand wrap and bidding process needed
- Have the correct subcontractors perform the work
  - Can you have quality pre-qualification
    - Watch out for lump sum bidding
Safety Keys to Success – Purchasing

• Balancing schedule and bid vs. safety and performance
  – Complete buyout of safety from each subcontractor
    • As it pertains to loss control
    • As it pertains to EMR
Safety Keys to Success – Proper Staffing

• Full time safety - even on small projects
  – One person dedicated to running “The Business of Safety”
  – They are the protectors of the bottom line
  – It makes managing control on a CCIP much easier
Safety Keys to Success – Safety Accountability

• Everyone To Be Included
  – Including project manager (pm) and superintendent
    • Recognize pm’s are also tagged with building a building, however
    • Handle job-site inspections
    • Participate in safety meetings
  – Make it an aspect of performance evaluations
  – Team effort and team reward
Claims Management
Claims Prioritization

• Crisis Management Program
• 24-Hour Claim Reporting
• Quarterly Claim Reviews
• Dedicated Claim Teams
• Experienced Legal Counsel
• Clear Site Investigation
• Return to Work
• Trend Analysis
• Medical Trailers
• Experienced Claims Team
Claim Reporting

• Importance of early reporting
  – 0 – 3 days = $10,000
  – 3 – 10 days = $15,000
  – >10 days = $30,000

• Ask yourself
  – Who will report and how?
  – Why will claims not be reported on time?
  – Claim folks should review with project staff
Claim Reporting

• Clear and concise reporting procedures include:
  – Designated claim forms
  – Applicable contact information
  – 1-800 or online reporting
Site Investigation - Reporting

• Need to understand claims process
  – Proper contacts
  – Experts where needed
  – Claims not reported timely

• Need for consistent monitoring
  – Oversight not available
  – Injuries get out of hand
  – Job site visits not held
Experienced Claims Teams

- Qualified people to review
  - For all lines of coverage
  - Realize workload of brokers/insurance carriers

- Easy access to loss information
  - Loss runs
  - Detailed claim information
  - Monthly basis at a minimum
Litigation Management

• Know your legal firm
  – Construction experience invaluable
  – Insist on one legal firm for project

• Know your legal strategy
  – How your solution will be achieved
  – Understand pro’s and con’s of solution and related costs
  – Marry claims expense with direction of suit
Return to Work Program

- Why it makes sense
  - Improves medical outlook
  - Improves morale
  - Makes everyone more productive
  - Saves on medical and indemnity payments
Return to Work Program

Making it happen:

• Communication channels must be established
  – Between injured worker and physician
  – Include job descriptions

• Monitor and review
  – Claim handler/project site/injured employee

• Make part of contract
  – Enforceable
Crisis Management

• Detailed and reviewed
  – Responsibilities assigned
  – Contact information ready and available
  – Training available

• Dry Runs
  – Several times a year
Claim Communication

• Meet with job staff consistently
  – Claims, safety and operations
  – Broker and claims administrator

• Review
  – Wrap loss history
  – Reserve changes
  – Loss trend analysis
    • Injury
    • Cause of accidents
Medical Trailers

- The site safety person for claims management
  - Improve on-site monitoring of claims
  - Improve return to work
  - Help with reporting claims
  - Participate in staff meeting
  - Help with claim reviews
  - Improve subcontractor morale

- Particularly on 100+MM projects
Wrap-Ups: Beyond the Basics from Concept to Closeout

Module #6

Building a Better OCIP
Session Objectives

• Discuss OCIP success factors
OCIP Success Factors-Pick the Top 5

- Effective credit tracking methodology
- An administrator with a large staff
- A formal safety incentive plan
- Clear, concise & consistent program documents
- Sponsor commitment to program & safety
- Realistic expectations & goals based on a good feasibility analysis
- Dedicated & experienced broker/administrator
- CM/GC who embraces & supports the program
- Well designed implementation plan
Realistic Expectations

- Define success
- Turn into goals & objectives for project
Sponsor Commitment to Program & Safety

• Commits adequate time & personnel to program operation
  – Internal team members
    • Risk Management
    • Safety & Loss Control/Security
    • Operations/Project Management
    • Purchasing
    • Accounting
• Utilizes collaborative approach to safety
Dedicated & Experienced Administrator

- External Team
  - Consultant
  - **Broker/Administrator**
  - Prime Contractor if an OCIP
  - Insurance Company
  - Attorney
  - Experienced Peers
Dedicated & Experienced Administrator

- Broker/Administrator Qualifications
  - Experience
  - Adequate amount of staff
  - Local presence
  - Understands local contractor market
  - Understands/supports program objectives
  - Knowledgeable of construction and wrap-up timelines
  - Has adequate RMIS capabilities
Dedicated & Experienced Administrator

• Broker/Administrator Selection
  – Current broker/administrator
  – Current broker plus administrator
    • Third-party administrator
    • Other brokerage firm
  – Designated broker/administrator
    • Select
    • Utilize RFP process
CM/GC Who Embraces & Supports Program

• Utilize partnership approach
• Acts as primary gatekeeper
• Underwriting based on their safety program
Clear, Concise & Consistent Program Documents

• Must Replace Traditional Language to Recognize Wrap-Up
• Modify Article 11 or Addendum
• Should Address
  – Credit Tracking Methodology
  – Mandatory Enrollment & Eligibility
  – Responsibilities & Requirements
Clear, Concise & Consistent Program Documents

- Safety Manual
- Instructions to Bidders/Invitation to Bid Documents
- Proposal Form
- Program Manual/OCIP Manual
- Notice of Award Letter
- Claim Handling Information
Implementation Process Roadmap

- Define Program Goals & Objectives
- Broker/Administrator Selection (If Applicable)
- Insurance Company Selection
- Create/Update Documents
- Map Administration Procedures
- Ongoing Monitoring & Improvement
Program Administration

- Implementation
- Pre-bid/before award
- Upon award and ongoing
- Upon work termination and project termination
Implementation

- Service agreement
- Implementation or work plan
- Determine credit tracking methodology
- Contract analysis/documentation
- Create/Purchase RMIS/Administration system
- Arrange safety and loss control services
- Arrange claims management services
Implementation

• Determine program management services
  – Credit tracking
  – Policy management
  – Payroll reporting
• Progress/stewardship reports
• Audit, closeout, and claims management through conclusion of all claims
Pre-Bid/Before Award

- Assist with communication regarding safety program
- Finalize/distribute pre-bid documents
- Attend pre-bid meetings if necessary
- Answer contractor questions
- Assist with preparation of credit/cost calculations
- Assess contractor credit calculations
Upon Award & Ongoing

- Continually monitor effectiveness of safety program, make improvements as needed
- Enroll contractors
- Send WC policies
- Collect payroll reports
- Deliver program progress reports
- Manage claims
Upon Work or Project Termination

- Request/process audits
- Process final closeout calculations, if applicable
- Continue to manage claims
- Continue to deliver program progress reports
- Improve program as needed
Kick Off the Program

• Institute operational controls
  – Confirm coordination between purchasing, site safety, and broker/administrator
  – All parties should consistently:
    • Communicate expectations to participants
    • Control participant activity on site
    • Ensure proper coverage from participants
Kick Off the Program

- Meet with internal and external team to review all documents for completion, accuracy, & consistency
- Determine agenda(s) for kickoff meeting
- Determine kickoff schedule
  - Meetings
  - Attendance at pre-bid meetings
Progress Reports

- List of Enrolled Contractors
- Financial Performance of Program to Date
- Insurance Cost Information Detail
- Reported Payroll Detail
- Claim Activity to Date/Loss Runs
Building a Better OCIP

• Define success for your program
  – Proactively learn about wrap-ups
  – Thoughtfully identify your program goals
  – Thoroughly investigate feasibility of program in accordance with goals

• Get consensus from internal & external team members
  – Carefully select all service provider partners
Building a Better OCIP

• Design a plan to achieve successful outcome
  – Incorporate as many best practices as possible

• Execute plan
  – Continually monitor & maintain involvement
Wrap-Ups:

Module #7

Building a Better CCIP
Module Objectives

- CCIP – Additional Benefits
- Pitfalls to Avoid
- Making it Happen
CCIP – Additional Benefits

• Total project control is a good thing
  – Insurance becomes part of operations
  – More control means better project outcomes
  – Fewer surprises
    • As long as you know what you are doing
CCIP – Additional Benefits

• More tools in the toolbox
  – Improves marketing opportunities
    • “That which is not growing is dying”
  – Improves overall services to the owner – OCIP and CCIP
  – Meet almost all owner contractual insurance requirements
CCIP – Additional Benefits

- Enhance Safety and Claims Performance
  - Improves overall financial results for corporate
  - Fewer surprises – better returns
    - Corporate as well as CCIP price reductions
    - Insurance reductions will lead to more competitive pricing
CCIP – Additional Benefits

- Maximize Coverage
  - No need to rely solely on Indemnification or Additional Insured
  - Protects balance sheet for company
  - Helps eliminate surprises
CCIP – Additional Benefits

• Improves Subcontractor Relations
  – Partnerships become even more important
    • Better buyer of Subcontractor Services
  – Improvement for the group benefits everyone
  – Not fighting about Additional Insured and COI’s
  – Claims handled appropriately
  – Contractual terms agreed upon ahead of time
CCIP Breakdowns

• General not Coordinated Internally
  – Risk Management doesn’t communicate with sales
  – Sales doesn’t communicate with Purchasing
  – Subcontractor bidding doesn’t match CCIP projections
    • May affect contractor credits
    • May affect GMP price
  – Subcontractor coverage requirements not met
    • May affect GMP price
CCIP Breakdowns

Lack of Knowledge on Process

- Implications to owner and contractors
- Implications from contractor to subcontractor
- Expectations vs. Reality
  - “We don’t have to pay attention to that”
  - “It really does take work”
  - “Anyone can do it”
CCIP Breakdowns

Bid Process Isn’t Thought Out
• Gross vs. Net vs. Add Alternate
  – Leads to problems/inconsistencies w/purchasing
  – May affect financial projections
  – Increase administrative effort on Owner/GC/Subs
CCIP Breakdowns

Lack of Consistency in Documents

• Owner/GC/Subs/Bid Docs. Etc.
  – Which contract takes precedence?
  – May affect financial projections
  – Major headache to subs
  – Increased administration for everyone
CCIP – Making it Happen

Step #1

• Need Top Down Commitment to Implement
  – Build incentives for implementing
  – Build safety and premium metrics
  – Make CCIP a performance measure

• Pitfall
  – Afraid to take plunge
  – Leads to missed opportunities
  – Not enough support
CCIP – Making it Happen

Step #2

• Make CCIP an Operational Function
  – Have Risk Manager answer to operations person
  – Create staffing to support feasibility

• Pitfall
  – Risk Manager answers to Financial Manager
    • Operations does not fully accept
  – Leads to missed opportunities
  – Not enough support
Step #3

- Develop Strong Broker/Insurer Relationship
  - Strong partnerships will help through process
  - Relationships help carry you through tough times
  - Maximize internal and external ideas
CCIP – Making it Happen

Step #4

• Build Feasibility into Estimating Process
  – Allows for seamless flow to implementation
  – Builds experience for future prospects
  – Early pricing required for contract documents later
CCIP – Making it Happen

Step #5

• Information Technology is vital
  – Improves efficiencies which leads to
  – Improved sales and expanded feasibility

• Pitfall
  – An inadequate IT system can de-rail a program
  – Initial expense high, but future returns greater
Step #6

• Lay out Roles and Responsibilities
  – This involves all team members
    • Internal – Operations, Purchasing and Estimating, Financial
    • External – Broker, Insurance Carrier

CCIP – Making it Happen
CCIP – Making it Happen

Step #7

• All Contractual Documents Must Tie Together
  – Owner to general contractor
  – General contractor to subcontractor
  – Subcontractor to sub-sub

• Realize that Contractual Documents are:
  – Usually completed by someone outside of risk management
    • Changes need to be reviewed
  – What you will pray is fully complete if there is a problem
Wrap-Up Manuals

Should Include:

• Details, Details, Details
  – Clarity helps

• Bidding Process
  – Net/gross/add alternate

• Insurance Coverage
  – All limits and completed ops tail
Wrap-Up Manuals

Should Include

• Administrative Requirements
  – Simple is key
  – Don’t over-administer
    • Too much detail - no one will comply
    • Subs headaches will become your headache
    • Sub bids may be higher
Wrap-Up Manuals

Should Include

• Sample Forms and Certificates of Insurance
  – Simple is key
  – Give examples

• Understand What Your Subcontractor Market Can provide
  – You may want CG 20 10 11/85, but you may not get it
Wrap-Up Manuals

Should Include

• Closeout and Termination
  – Focus on Process
  – Will you be able to get coverage extensions if needed
  – Being silent is not good
    • Subcontractor will have a difficult time supporting you.
Wrap-Up Manuals

Should Include

• Claim Requirements
  – Who/what/where
  – Don’t rely on boilerplate language

• Safety Requirements
  – Needs to coincide with contract
  – Don’t rely on boilerplate language
Certificates of Insurance

• One of the most hotly contested issues today
  – Realize that indemnification may not be supported by your insurance carrier
  – Understand the difference between on and off-site coverage and exposures

• Simple is better
Questions
Wrap-Ups: Beyond the Basics from Concept to Closeout

Module #8

Wrap-Ups for GL Only/Residential Projects

Presented by:
Scott Jensen
Vice President,
AmWINS Brokerage of Alabama
Birmingham, AL
Sample Projects for GL Wrap

- Assisted Living Facility
- Townhome Project
- Condo Conversion
- Condo/Hotel
- Single Family
- Commercial Grade Wood Frame Condo
- Apartments
Markets for GL Wraps

- **Non-Admitted Carriers**
  - Ace/Westchester
  - American Safety
  - Arch
  - Aspen UK
  - Axis
  - Catlin
  - Crum and Forster
  - Chubb Custom
  - Markel (Evanston)
  - Gemini
  - Ironshore
  - Fireman’s Fund Specialty
  - Lexington
  - Rockhill

- **Admitted Carriers**
  - ACE
  - AIG
  - Arch
  - Liberty
  - Travelers
  - Zurich
What is Non-Admitted?

- Typically used for a risk that is:
  - tough to place,
  - unusually large,
  - or requires specific coverage that is not available by carriers approved by the state Guaranty Association
Admitted vs. Non-Admitted

• Admitted
  – Required to be licensed
  – Protected by State Guarantee
  – Terms and Condition regulated by state

• Non-Admitted
  – Not required to be licensed
  – Not Protected by State Guarantee
  – Terms and Conditions not regulated by state
Obtaining a GL Wrap

• Select broker who has experience in GL wraps:
  – Needs understanding of the marketplace
  – Understand their relationship with the wholesale broker
  – Knows the difference in the marketplace
  – Help set reasonable expectations
Obtaining a GL Wrap (cont.)

- Majority placed non-admitted
- Non-Admitted = Excess & Surplus (E&S)
- E&S broker represents the project to markets
Obtaining a GL Wrap (cont.)

• Catch the eye of your underwriter
Obtaining a GL Wrap (cont.)

- What Is Needed? Underwriting Requirements:
  - Residential Wrap Application
    - Construction Cost
    - Sales Figures
    - Project Detail
    - Surrounding Exposure
    - Project Teams Background Information/Experience
    - Risk Management Technique
    - Quality Control Program
    - Safety Program
    - Home Warranty Program
    - Post Construction Operations
Obtaining a GL Wrap (cont.)

- Project Description/Executive Summary
  - # of Buildings/# of Stories/# of Units
  - Location (Downtown/Rural)
  - Project Length
  - Type of Construction

- Geotechnical Report (<1 Year Old)
- Environmental Assessment Report
- 5-7 Years GC Loss History
  - Description of all CD losses and any other loss above $25,000

- Site Plan
- Construction Budget
- Financials
- Roof Information (Pitched or Flat)
Carrier Appetite

- West Coast vs. East Coast
- Frame vs. Concrete
- Small vs. Large
- Project Length
- Single Project vs. Multi Project
Terms and Conditions

• Non-admitted markets have authority to add and delete coverage

• No universal policy forms
Terms and Conditions

• Coverages
  – Subsidence/Land Movement
  – Cross Suits
  – Exclusion J(2), J(5), K, & L
  – Subsequent Work
  – Right to Repair Wording
  – Completed Ops Wording
  – Off-Site Premises and Operational Liability
  – Non-Enrolled and Specifically Excluded Subcontractors
  – Coverage for Models
  – Pre-Existing Damage
  – SIR wording
  – Defense Cost Included in Limits of Insurance
  – Repair Work Endorsement
  – Professional Liability Exclusion (Architects and Engineers)
  – EIFS
  – Pollution/Environmental
  – Mold
Contractors Pollution Wrap Up

• CPL Coverage
  – Operations (ongoing and completed)
  – Contractual (assumed in a legal contract, “Insured Contract”)

• Coverage for your Pollution Exclusion
  – Including mold
  – Up to 10 years completed operations extension
Other Requirements

• Risk Assessment Review
• Wrap Administration
• 3rd Party Quality Control
• Post-construction customer service and warranty programs
Market Trends

- Multi-Project Policies
- Rolling Wraps
- Rating Basis for Wrap-Ups
- Minimum Premiums
- GL wraps of Commercial Projects
Multi-Project Policies

• This is not a rolling wrap

• Schedule multiple projects to one policy with one set of limits
  – Advantages:
    • Excess limits are a lot cheaper than primary
    • Carriers will give up to 60 months for completion of the project
Rolling Wrap-Up

• Multiple Projects over a couple of years
  – Advantages
  • Carriers will give per project aggregates and completed operations aggregates
  • Group buying can equal better than market rates
Rating Basis For Wrap Ups

- **Construction Cost**
  - Rate per $1,000 in Hard Cost Construction

- **Gross Receipts**
  - Rate per $1,000 of Final Audit Sales Price

- **Per Door Rate**
  - Rate per Physical Number of Units
Minimum Premiums

• Carrier Minimum Premiums Vary
• Starting Point - $150,000 for GL
• Excess Carrier
  – Rate per million per year? (sometimes)
GL Wraps of Commercial Projects

- Projects between $30M - $125M
  - Casinos
  - Municipal Projects
  - Commercial Buildings
  - Build Out/Expansion Projects
  - Arenas
  - Industrial Plants

- Deducts may not be there for the Workers’ Comp
- Dedicated Limits
## Condominium Risk Guideline

<table>
<thead>
<tr>
<th>Risk Problem</th>
<th>Average Project</th>
<th>Better Project</th>
<th>Best Project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Project</strong></td>
<td>Conversion</td>
<td>Conversion or New</td>
<td>New Construction</td>
</tr>
<tr>
<td><strong>Type of Construction</strong></td>
<td>Frame</td>
<td>Joisted Masonry</td>
<td>Masonry Fire Resistant</td>
</tr>
<tr>
<td><strong>Project Size</strong></td>
<td>Under $5m</td>
<td>$5m - $25m</td>
<td>Over $25m</td>
</tr>
<tr>
<td><strong>Project Location</strong></td>
<td>Western States</td>
<td>Southeast</td>
<td>Midwest</td>
</tr>
<tr>
<td><strong># of Projects</strong></td>
<td>Single Project</td>
<td></td>
<td>Multiple Projects</td>
</tr>
<tr>
<td><strong>Underground Parking</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Demolition</strong></td>
<td>Included in Project</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong># of Buildings</strong></td>
<td>Multiple</td>
<td>Single or Multiple</td>
<td>Single</td>
</tr>
<tr>
<td><strong># of Condo Associations</strong></td>
<td>Multiple</td>
<td>Single</td>
<td>Single</td>
</tr>
<tr>
<td><strong>EIFS</strong></td>
<td>Yes</td>
<td>Some</td>
<td>None</td>
</tr>
</tbody>
</table>
Sample Project #1

- Sin City Development LLC in Nevada
  - $70,000,000 construction cost
  - 224 units
  - OCIP
  - New Developer with no existing sub relationships
  - Wants to shut down LLC ASAP
### Layering Price – Sample Project #1

<table>
<thead>
<tr>
<th>Limits</th>
<th>Layered Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000,000 General Aggregate</td>
<td></td>
</tr>
<tr>
<td>$2,000,000 Products/Completed Operations Aggregate</td>
<td>$765,000</td>
</tr>
<tr>
<td>$2,000,000 Each Occurrence</td>
<td></td>
</tr>
<tr>
<td>$100,000 Deductible</td>
<td>$10,000,000 xs Primary</td>
</tr>
<tr>
<td>$15,000,000 xs $12,000,000</td>
<td>$408,000</td>
</tr>
<tr>
<td>$25,000,000 xs $27,000,000</td>
<td>$227,000</td>
</tr>
<tr>
<td>Total of $52,000,000</td>
<td>$1,907,000</td>
</tr>
</tbody>
</table>
Sample Project #2

• Tower Development LLC in Florida
  – $100,000,000 construction cost
  – 150 Units
  – OCIP
  – Excellent reputation, has GC entity
  – Core sub group
  – Values relationship with subs
## Layering Price – Sample Project #2

<table>
<thead>
<tr>
<th>Limits</th>
<th>Layered Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000,000 General Aggregate</td>
<td>$725,000</td>
</tr>
<tr>
<td>$2,000,000 Products/Completed Operations Aggregate</td>
<td></td>
</tr>
<tr>
<td>$2,000,000 Each Occurrence</td>
<td></td>
</tr>
<tr>
<td>$25,000 Deductible</td>
<td></td>
</tr>
<tr>
<td>$10,000,000 xs Primary</td>
<td>$342,000</td>
</tr>
<tr>
<td>$15,000,000 xs $12,000,000</td>
<td>$155,000</td>
</tr>
<tr>
<td>$25,000,000 xs $27,000,000</td>
<td>$238,000</td>
</tr>
<tr>
<td>Total of $52,000,000 in Limits</td>
<td>$1,460,000</td>
</tr>
</tbody>
</table>
Questions
Coverage Considerations for GL Only / Residential Projects
Adequate Limits

- Defense within limits

- Limits shared by all insureds
  - possibly multiple projects

- Contractor’s corporate insurance should not exclude wrap-up projects but should be excess to wrap-up insurance
Satisfaction of SIR

- How much is SIR/deductible and when must it be satisfied?
- Which insured obligated to satisfy SIR?
- Multiple SIRs or one SIR for multiple claims on same project
**Completed Operations Coverage**

- Must match statute of repose in state where project is located

- Is there coverage for completed operations as each unit/home is finished in a multi-unit development?

- Potential gap in coverage

- Is there coverage for warranty work following completion of project?
Project site description in wrap must match parties’ expectations – “1210 Main St”

Coverage for bodily injury/property damage in lay down area
Joint Defense

Must determine if a conflict exists for one attorney to represent owner, general contractor and sub-contractors.

Conflicts may exist for firms that represent developers and general contractors in representing all parties in lawsuit.
Joint Defense Agreement

- If carrier retains different lawyers to represent different insureds, joint experts may still be retained.

- Joint defense agreements may be necessary to protect expert consultant work with respect to jointly retained experts.
Notice

- Notice to wrap-up sponsor or administrator is not sufficient; must notify wrap-up insurer of all claims timely

- Lack of timely tender could preclude recovery for pre-tender repairs (or worse)
Unenrolled Contractors

- Enrolled subcontractor hires off-site contractor and agrees to contractual indemnification, which may qualify as insured contract under wrap-up policy.
Exclusions

- Read exclusions carefully (including endorsements)
- Avoid cross-liability exclusion
- Avoid mold exclusion

Exclusion Examples
Module #10

Wrap-Up Credit Tracking Challenges
Session Objectives

- Discuss contracting methods
- Review credit tracking options
- Discuss common challenges
Contract Types

**Owner to General Contractor**

- **Lump Sum**
  - Fixed terms/price—no negotiation
  - Design documents complete
  - Any savings go to GC

- **Guaranteed Maximum Price (GMP)**
  - Negotiated terms/qualifications/price
  - Maximum price with savings to owner
  - Design documents not complete
Contract Types

General Contractor to Subcontractor

• Lump Sum
  – Fixed terms/price—no negotiation
  – Design documents may/may not be complete
  – Any savings go to subcontractor
Contract Award & Subsequent Billing

- Subcontractor awarded contract at specified contract price
- Subcontractor proceeds with work
- Subcontractor bills CM/GC on a % of completion basis
- CM/GC holds back % as retention
- Change orders can increase or decrease the original contract price
CM/GC Billing to Owner

- CM/GC submits bill to Owner based on % of value completed for each scope item
- On a GMP-CM/GC submits a schedule of values listing each subcontract, original contract price, any change orders and % completed
- The CM/GC submits their direct costs as a separate line item
Purpose of Credit Tracking

- Feasibility process provides best guess of contractors insurance costs
  - Not an exact science—many variables
- Credit tracking allows sponsor to monitor contractors insurance costs as compared to feasibility prediction
- May allow sponsor to prove savings
### Bid /Proposal Form

All work required by the foregoing documents will be accomplished for the Lump Sum Bid Price of: **One Million Twenty Five Thousand Three Hundred Forty Two Dollars ($1,025,342).**

**ALTERNATE PRICE:**

1. In accordance with Contract Documents, state the amount to be deducted from the base bid to participate in the Wrap-Up.

   **Deduct $25,342.**
Credit Tracking Method

• How am I supposed to prepare my bid?
• How am I supposed to identify my insurance costs?
• How am I supposed to present my change order quotations?
• Will there be a closeout calculation? If so, how will it work?
• How does all of this work as respects my subcontractors?
Choose Credit Tracking Methodology

- **Base Bid Treatment**
  - Net Bid (Bid Excludes Insurance)
  - Net Bid (Bid Excludes Insurance) with Add Alternate or Insurance Cost Identification
  - Gross Bid (Bid Includes Insurance) with Deduct

<table>
<thead>
<tr>
<th>Bid Price</th>
<th>Bid Price</th>
<th>Bid Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Bid Excludes Insurance: $________</td>
<td>Base Bid Excludes Insurance: $________</td>
<td>Base Bid Includes Insurance: $________</td>
</tr>
<tr>
<td>Add Alternate for OCIP: $________</td>
<td>Deduct Alternate for OCIP: $________</td>
<td></td>
</tr>
</tbody>
</table>
Documentation Requirements

- None (identification with bid only)
- Insurance cost calculation work sheet only
- Insurance cost calculation work sheet plus
  - Rate pages
  - Experience modification work sheets
  - Loss experience (if loss sensitive program)
  - Labor wage rates
### Smith Concrete

**Total bid price including insurance** | $1,025,342  
---|---  
**Deduct alternate for removing insurance** | $25,342  
---|---  
**Owner accepts alternate and deducts from bid price** | $1,025,342  
---|---  
---|---  
**Awards contract*** | $1,000,000  
---|---  
**Deduct alternate based on estimated payroll** | $200,000  
---|---

*Can award net or gross amount*
Closeout or Adjustment Formula

- Compute estimated insurance cost using estimated payroll
- Report [monthly] payroll
- Estimated insurance cost is recalculated using reported payroll
- Adjustment made by change order either deductive (or additive?)
## Adjustment Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduct Alternate for Removing Insurance</td>
<td>$25,342</td>
</tr>
<tr>
<td>Deduct Alternate Based on Estimated Payroll</td>
<td>$200,000</td>
</tr>
<tr>
<td>( \frac{25,342}{200,000} ) “Adjustment Rate”</td>
<td>$0.12671</td>
</tr>
<tr>
<td>Actual Payroll Reported</td>
<td>$250,000</td>
</tr>
<tr>
<td>Deduct Alternate Recalculated ( \times 0.12671 \times 250,000 )</td>
<td>$31,678</td>
</tr>
<tr>
<td>“Adjustment” Due from Smith Concrete ( \times 31,678 - 25,342 )</td>
<td>$6,336</td>
</tr>
</tbody>
</table>
**Adjustment Example**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduct Alternate for Removing Insurance</td>
<td>$25,342</td>
</tr>
<tr>
<td>Deduct Alternate Based on Estimated Payroll</td>
<td>$200,000</td>
</tr>
<tr>
<td>Actual Payroll Reported</td>
<td>$150,000</td>
</tr>
<tr>
<td>Deduct Alternate Recalculated (.12671 X $150,000)</td>
<td>$19,007</td>
</tr>
<tr>
<td>“Adjustment” RETURN Due ($19,007-$25,342)</td>
<td>($6,335)</td>
</tr>
</tbody>
</table>
Change Orders

- Must advise participants how to quote their change orders
- Change orders can either include insurance or exclude insurance
- Requirement for change order labor & material rates
- The bid documents may contain a labor wage rate work sheet that must be completed
Lower Tier Sub “Credits”

• Engagement
  – Before contract award
  – After contract award
• Bid requirements for sub-subcontractors
• Responsibility for credit/deduct
## Lower Tier Sub Credits

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith Concrete—Deduct Alternate for Removing Insurance-Payroll Rate $0.12671</td>
<td>$25,342</td>
</tr>
<tr>
<td>Cool Rebar—Deduct Alternate for Removing Insurance-Payroll Rate $0.120</td>
<td>$1,425</td>
</tr>
<tr>
<td>Total Deduct Alternate for Smith Concrete</td>
<td>$26,767</td>
</tr>
</tbody>
</table>
“Credit Tracking” for Residential Wrap-Ups

- Premium contribution
- Cost sharing/allocation
  - None—subs bid net
  - Assign sub “credit” by trade
  - Use subs rates
- Use of deductibles
  - Ongoing operations
  - Completed operations
Challenges to Process

- Flat umbrellas
- Large deductible programs
- Minimum earned general liability policies
- Profit & overhead
- Incorrect classifications
- Low payroll estimates
- Participant deductibles, fines, or penalties
Challenges to Process

• Conflicts of interest
• Focus
  – Market conditions—buyer vs. seller
  – Relativity to other bids
• No direction as respects change order quotations
Session Objectives

• Compare OCIP & CCIP to traditional approach
• Select best approach for project
Lakeville Hotel & Casino

- Hard Cost-$275,000,000
- Projected Payroll-$71,500,000
- Estimated Contractor Insurance Cost-$10,495,800

<table>
<thead>
<tr>
<th>Project Volume $275,000,000</th>
<th>Projected Payroll @ 26% $71,500,000</th>
<th>$275,000,000</th>
<th>Estimated Traditional Pricing</th>
<th>$10,495,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Es Subcontractor Payroll</td>
<td></td>
<td>$63,277,500</td>
<td>$275,000,000</td>
<td>$10,495,800</td>
</tr>
<tr>
<td>26.00%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub WC &amp; GL ($12.00 rate)</td>
<td></td>
<td>$7,593,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Contractor WC</td>
<td></td>
<td>$565,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GC GL ($8.50)</td>
<td></td>
<td>$2,337,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Traditional Cost</td>
<td></td>
<td>$10,495,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Traditional CCIP</th>
<th>OCIP @ 8.50</th>
<th>Expected Losses</th>
<th>Maximum Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$9,432,500</td>
<td>$2,502,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$7,593,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$565,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,337,500</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coverage Limits Included</th>
<th>$5 - $10 Million</th>
<th>$200 million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$100 million</td>
<td>$100 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>X</th>
<th>Limits Project Specific</th>
<th>$10,495,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mold Coverage (GC/Owner)</td>
<td>X</td>
<td>+550,000</td>
</tr>
<tr>
<td>Terrorism Coverage</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Guaranteed Coverage/Limits</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>$250k</td>
</tr>
<tr>
<td>Covered</td>
<td></td>
<td>$500k</td>
</tr>
<tr>
<td>Covered</td>
<td></td>
<td>$500k</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Completed Operation Coverage Period (Subs)</th>
<th>3 years</th>
<th>6 years</th>
<th>6 years</th>
<th>6 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed Operation Coverage Period (GC/Owner)</td>
<td>6 years</td>
<td>6 years</td>
<td>6 years</td>
<td>6 years</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Defense Costs are outside the limits</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Volume Considered in Proposal</th>
<th>($275,000,000)</th>
<th>($275,000,000)</th>
<th>($275,000,000)</th>
<th>($275,000,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Considered in Proposal</td>
<td>($71,500,000)</td>
<td>($71,500,000)</td>
<td>($71,500,000)</td>
<td>($71,500,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Administrative Claims / Litigation Management Responsibility</th>
<th>Included</th>
<th>Included</th>
<th>Included</th>
<th>Included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish / Administer Return to Work Program</td>
<td>Included</td>
<td>Included</td>
<td>X +70,000</td>
<td>X +70,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Owner's Administrative Costs</th>
<th>None Required</th>
<th>None Required</th>
<th>X +300,000</th>
<th>X +300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker's Administrative Costs</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Collateral Costs</td>
<td>None Required</td>
<td>None Required</td>
<td>X +40,000</td>
<td>X +40,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Guaranteed Cost Program/Loss Sensitive Program</th>
<th>Guaranteed</th>
<th>Loss Sensitive</th>
<th>Loss Sensitive</th>
<th>Loss Sensitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates Guaranteed for Life of Project</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Premium Taxes</th>
<th>Included</th>
<th>Included</th>
<th>X +50,000</th>
<th>X +50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Assessments</td>
<td>Included</td>
<td>Included</td>
<td>X +270,000</td>
<td>X +270,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Umbrella Premiums</th>
<th>X +800,000</th>
<th>X +800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker Commissions</td>
<td>Included</td>
<td>Included</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Collateral Costs</th>
<th>None Required</th>
<th>None Required</th>
<th>X +40,000</th>
<th>X +40,000</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Loss Assumptions for Pricing</th>
<th>(5.00)</th>
<th>(12.00)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Handling Expenses</td>
<td>Included</td>
<td>Included</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductible Amount</th>
<th>None</th>
<th>$250k</th>
<th>$500k</th>
<th>$500k</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Evaluated Program Cost</th>
<th>$10,495,800</th>
<th>$9,432,500</th>
<th>$8,375,000</th>
<th>$13,870,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Cost as a % of Volume</td>
<td>3.82%</td>
<td>3.43%</td>
<td>3.05%</td>
<td>5.04%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General Contractor Safety and Administration</th>
<th>0.15%</th>
<th>0.35%</th>
<th>0.25%</th>
<th>0.25%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Total Program Cost</th>
<th>$10,908,300</th>
<th>$10,395,000</th>
<th>$9,062,500</th>
<th>$14,558,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Program Percent of Premium</td>
<td>3.97%</td>
<td>3.78%</td>
<td>3.30%</td>
<td>5.29%</td>
</tr>
</tbody>
</table>
The Players

- Audience = Owner
- TAS = Owner’s Consultant
- KAC = Owner’s Broker
- CTS = General Contractor
Lakeville Hotel & Casino

- Feasibility/Pro Forma
- Coverage
- Implementation
  - Service Team
  - Administration
  - Safety
  - Claims Management

Estimated Traditional Pricing
- Project Volume $275,000,000
- Projected Payroll @ 26% $71,500,000
- Total Traditional Cost $10,495,800
- Expected Losses $10,495,800
- Maximum Losses $2,502,500

Pricing
- Guaranteed Cost Program/Loss Sensitive Program
  - Guaranteed Cost
  - Loss Sensitive
- Rates Guaranteed for Life of Project
- Premium Taxes
- State Assessments
- Umbrella Premiums
- Broker Commissions
- Collateral Costs

Loss Assumptions for Pricing
(5.00) (12.00)
- Losses Included (within deductible)
- Claims Handling Expenses
- Deductible Amount

Evaluated Program Cost
- $10,495,800
- $9,432,500
- $8,375,000
- $13,870,500

Insurance Cost as a % of Volume
- 3.82%
- 3.43%
- 3.05%
- 5.04%

General Contractor Safety and Administration
- 0.15%
- 0.35%
- 0.25%
- 0.25%

Total Program Cost
- $10,908,300
- $10,395,000
- $9,062,500
- $14,558,000

Total Program Percent of Premium
- 3.97%
- 3.78%
- 3.30%
- 5.29%