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Guide to FHWA Funded Wrap-Up Projects

I. INTRODUCTION

The hazards and resultant risks associated with major construction projects challenge both the owner and the contractors to develop risk management strategies. Traditionally, owners have relied on contract provisions designed to transfer risk to the contractors and specific insurance requirements to address these risks. While the liability and control is transferred to the contractor, the ultimate cost is transferred to the owner. The cost is added to the bid, and burdened with loading for profit, overhead and contingencies. The impact on the project cost is significant with cost ranging from 4 percent to 10 percent of project cost depending on the type of project and the coverage required.

Managing Construction Risks

- Goals
  - Protect the Project
  - Protect the Public
  - Protect the Workers
- Tools
  - Contract Provisions
  - Insurance Protection
  - Loss Prevention/Control Program
  - Quality Claims Services
- Concerns
  - Increased Costs
  - Administrative Impact
  - Adverse Effect on Small, Specialty and Minority Contractors

In addition to the direct impact on the bottom line, the effectiveness of the risk management and insurance program can affect other issues including the safety, potential delays, and the necessary protection of the owners' assets.

While many larger contractors maintain insurance programs that address the exposures and significant limits of liability necessary to address these risks and comply with contract provisions, many smaller, disadvantaged or minority firms that may be otherwise qualified to perform the work find the insurance requirements create an exclusionary barrier.

To balance the need for adequate protection, reasonable cost and requirements that do not exclude minority participation, many owners, contractors and public entities have taken "control" of the insurance from each contractor and use an approach that typically provides broadened coverage at a reduced cost for all site contractors. Project owners being the principal parties when the approach was developed, it became known as a Wrap-up or, more commonly, an Owner Controlled Insurance Program (OCIP). In more recent years, the basic concept has been adopted by contractors and is referred to as a Contractor Controlled Insurance Program (CCIP). The Partner Controlled Insurance Program (PCIP), in which the owner and the contractor share any savings, is the newest entry into the field. Regardless of the acronym, each comes under the umbrella of Wrap-up program. Under any type of wrap-up, the key elements, advantages and disadvantages remain the same.

A wrap-up does not transfer liability, but offers a potentially more cost efficient method of securing risk protection. The wrap-up shifts control of the purchase from each contractor to maximize buying potential and assure the effectiveness of the coverage. The use of a wrap-up does not shift the chain of liability. If the negligent party is the owner or contractor, the responsibility for claim payments remains with the owner or contractor. The difference under a wrap-up is that the owner or contractor procures the specified insurance coverages for its contractors and subcontractors at all tiers.

While wrap-ups have been used successfully for more than 30 years, they are not without their risks and drawbacks. For owners—the term used throughout this document to refer to the controlling entity—perhaps the chief drawback is the increased administrative responsibilities. For prime and upper tier contractors, perhaps the major criticism of wrap-ups is the potential for increases in insurance premiums for coverage that must be purchased for non-wrap-up work. These and other issues are discussed more fully in the Q & A section and throughout this document.

In October 2002, the Federal Highway Administration issued its policy on wrap-up Programs. Under this policy, in addition to costs associated with the establishment of a wrap-up, premiums and claim payments, contributions to reserve accounts also are eligible for payment with Federal funds. Reserves are eligible, however, only if they meet certain guidelines and if any excesses in those accounts are returned to the Federal-aid account. The full policy is included in the Appendix.

II. OVERVIEW

A. The Owner-Controlled Insurance Program is an asset protection option designed for major construction projects that allows coverages for multiple insured entities to be "wrapped up" into a single consolidated insurance program. OCIPs have been used for more than 30 years on private and public projects that include every type of construction – rail systems, airports, highways, stadiums, convention centers, prisons, bridges, schools, hospitals.

One of the first types of wrap-up programs was the Defense Rating Plan (DRP). The DRP was developed for use at Department of Defense DOD projects, (and later adopted by the Department of Energy DOE) presenting hazards that contractors' insurance companies were unable to respond to. The DRP used insurance carriers to issue workers' compensation and general liability policies, with one significant difference - no insurance (or risk transfer was provided). The "project" concept was adapted by the private sector in the 1970's in an effort to control the insurance costs associated with major projects which were ranging from 5 percent to 10 percent of total project cost.

B. Concept — Under an OCIP or "wrap-up" program, a single insurance program provides insurance for the owner and all eligible (on-site) project contractors and subcontractors. Wrap-ups can be owner sponsored (OCIP) or sponsored by the prime or general contractor (Contractor Controlled Insurance Program – CCIP). The total premium to cover the owner and contractors under a wrap-up tends to be significantly less than the total premium charged if *each* contractor buys its own insurance and includes that cost – plus any mark-up – in its bid to the owner. The program facilitates the inclusion of small and minority businesses by eliminating insurance barriers. The wrap-up provides a single point of focus for safety and claims management offering a coordinated approach specifically tailored to the project. This eliminates disputes among contractors and their insurers, reduces the disruption at the work site and can minimize potential delays attributed to accident investigation.

C. Types of Wrap-up Insurance Programs — Wrap-up programs come in a variety of forms:

1) **Rolling Wrap-up:** Multiple projects are included under one program. These projects might be under the eligibility threshold on an individual basis. This type of program could be used not only for new construction, but renovations such as corridors, where several projects/contracts will be initiated.
2) **Contractor Controlled Insurance Program (CCIP)**: Essentially the same as a wrap-up except the controlling party is the Prime Contractor instead of the project owner.
3) **Partner Controlled Insurance Program (PCIP):** Essentially the same as a wrap-up except control and savings are shared by the owner and the Prime Contractor. Which party owns the reserve, however, is an issue that needs careful consideration.
4) **Gate or Maintenance Programs**: Usually single site locations, these wrap-ups cover all maintenance and repair contractors coming on site. Used extensively by utilities to cover contractors working at nuclear power plants
5) **Continuous Route Programs**: The wrap-up site is not confined to a specific building, but covers the construction related to a defined path such as a pipe line, subway or roadway.

D. Eligible Projects — As a rule of thumb, a wrap-up may be considered an option when hard-cost, single-project values total at least $75 million. (Note: General Accounting Office (GAO) suggests $50 million as the minimum project cost for wrap-up consideration. However, unless virtually all of that $50 million is in payroll, wrap-up advantages will remain but savings may be more difficult to realize.) Hard costs include payroll, materials and labor. Hard costs do no include project development components such as land purchase, design, utility relocation and right-of-way expenditures or architectural and engineering plans.

That threshold may vary, however, depending on what types of coverages are included in the wrap-up, the nature and scope of the covered project, insurance market conditions and whether more than one project will be included in the program. In addition, certain state compensation systems have specific rules governing the use of owner controlled programs.

E. Who's Covered — The objective is to create an inclusive program covering all contractors working at the project site and the owner. Coverage under a wrap-up typically extends to:

1) The owner
2) The Construction Manager and Project Manager
3) All eligible Trade Contractors and their Subcontractors, regardless of tier

The coverage is not usually extended to architects, engineers or other consultants providing professional services because 1) their activities are typically not on site (they may have occasional visits) and are not impacted by the safety program and 2) the workforce workers' compensation rate is extremely low – providing little if any bid reduction relief while presenting the potential for claim severity due to the higher compensation.

F. Who's Not Covered — Typically no insurance coverage is provided under the wrap-up for the activities or products of the following:

1) Any person or organization that fabricates or manufacturers products, materials or supplies away from the project site(s);
2) Any architect, engineer or surveyor and their consultants except when approved by the owner;
3) Truckers, material dealers, vendors, suppliers, and owner/operators (independent contractors) whose operations or employees are engaged solely in the loading, hauling, unloading, or some combination of the same, of material, supplies or equipment to or from a Project Site;
4) Any employee of an enrolled or non-enrolled Contractor or Subcontractor, including any employee of truckers, material dealers, vendors, suppliers and owner/operators (independent contractors), who are engaged solely in the lading, hauling, unloading, or some combination of the same, of material, supplies or equipment to or from a Project Site;
5) Any employee of an enrolled Contractor and Subcontractor, who does not work or generate payroll at Project Site;
6) Any employees of an enrolled Contractor and Subcontractor who occasionally visits a Project Site to make deliveries, pick-up supplies or personnel, to perform supervisory or progress inspections, or from any other reason;
7) Any Day Labor Employees (labor service employees whose coverage is provided by their employer); or
8) Any other entity specifically excluded by owner.

G. Wrap-up Coverages — A wrap-up (single-project or rolling) usually provides the following basic coverages:

1) Workers' Compensation and Employer's Liability
2) General Liability
3) Excess Liability
4) Builder's Risk

H. Optional Coverages — A wrap-up also can be designed to cover the following risks:

1) Project consultants' and designers' errors and omissions (i.e., A&E E&O)
2) Project owner's liability for consultants' and designers errors and omissions exceeding professional liability limits
3) Subcontractor defaults
4) A wrap-up also can be designed to address other risks by providing coverage for the following exposures:

Exposure	Coverage(s)	Protecting
Pollution – damage to the site and damage to third parties caused by construction activity	Contractors' Pollution Liability	All site contractors and the owner third party claims
Professional Services – damage to the project – including financial damages and third parties (including workers – depending on contract provisions) resulting from design errors or omissions.	Project Professional Liability Owner's Professional Policy (OPP)	Project Architect and Engineer and their subconsultants Project owner alone

Less frequently, wrap-ups include coverage for financial (and time) risks such as

5) Force Majeure – Unforeseen events such as delays due to strikes, labor disputes, certain weather conditions
6) Cost Overrun and Accelerated Costs Coverage
7) Subcontractor Default (in lieu of bonding requirements)
8) Railroad Protective Liability (for projects with rail exposures)

The coverages and limits provided under each of these policies usually is at least as broad as an individual contractor can secure independently and generally much greater.

III. Disadvantaged Business Enterprise Participation

All federal-aid projects, regardless of system or "state-approval" status, are subject to the legislative and regulatory DBE requirements. The main objective of the federal Disadvantaged Business Enterprise Program is to ensure that DBE firms have an opportunity to participate in DOT funded contracts.

A. Definition — A (DBE) is a for-profit small business that is:

1) At least 51 percent owned by one or more individuals who are socially and economically disadvantaged.
2) Managed by one or more of the socially and economically disadvantaged individuals who own it.

B. Participation Requirements

The DBE participation requirements in Federal-aid highway contracts are contract provisions like any other contract provisions (i.e., predetermined minimum wage, Buy America provisions, and statements and payrolls, etc.), and should be administered as such.

C. References

"DBE Program Administration Manual" (HIPA-30)
49 CFR Part 26 (DBE Regulations)
49 CFR Part 21 (Title VI Regulations)
23 USC 140(c)
23 CFR 200 & 230

D. Benefits to DBEs

A wrap-up is both a race-neutral and race-conscious program to increase DBE participation on DOT projects. Wrap-ups help to level the playing field by eliminating or reducing conventional insurance expenses that for DBEs tend to be higher than those expenses for large contractors. In addition to the opportunity to work on construction projects, wrap-ups also provide these firms with work experience references, recordkeeping experience and project safety training.

IV. FAQs

Q. What is a federally funded project?
A. 23 CFR 1.2 defines a federal project as "An undertaking by a State highway department for highway construction, including preliminary engineering, acquisition of rights-of-way and actual construction, or for highway planning and research, or for any other work or activity to carry out the provisions of the Federal laws for the administration of Federal aid for highways." A project is generally defined by specific geographic and/or temporal limitations.

Q. How are project "hard costs" calculated?
A. Hard costs include the costs of project labor and materials. Certain projects with major single equipment procurements (by the owner) generally deduct this cost when determining feasibility.

Q. What are "eligible" wrap-up contractors?
A. Eligible contractors are contractors in all trades performing work on site *except* those involved in specific activities such as:

1. Hauling and delivery to and from the project site
2. Material supply
3. Environmental remediation
4. Fabrication off-site
5. Architects, engineers and other professional service providers

Even contractors who are otherwise eligible are not covered for their off site activities such as shop work, office support, etc.

Q. Can architects and engineers be covered under a wrap-up?
A. Although typically excluded due to their limited time on site and the minimal bid reduction (vs. high claim potential), they can be included in the basic wrap-up (workers' compensation and general/excess liability) Program. This program does not provide coverage for resulting from their errors or omissions. A separate but related Project Professional Program could be designed to cover Architects & Engineers Errors and Omissions (A&E E&O).

Q. What insurance coverages are not included in a wrap-up?
A. The basic wrap-up program *typically* does not provide pollution liability (Environmental Impairment Liability) or professional liability (Architects and Engineers Errors and Omission) coverages. It is not uncommon, however, to have separate EIL and/or A&E E&O policies added to a wrap-up program. Virtually never are automobile liability or physical damage coverages provided in a wrap-up program. In addition a wrap-up provides no coverage for off-site activities and contractors are still required to provide workers' compensation and general liability protection for these exposures.

Q. Is surety bonding included in a wrap-up?
A. For a variety of reasons, including cost to the project owner and administrative requirements for the owner and the surety, typically surety bonds are not included within a wrap-up program. Unlike insurance carriers, surety bond issuers do not pay losses, they guarantee contract completion and then seek recovery from the defaulting contractor. However, a surety bond component or a subcontractor's default insurance policy can be designed to work in conjunction with a wrap-up

Q. How do wrap-ups improve the safety of operations when the contractors don't pay for their own insurance?
A. Safety is a key ingredient of a successful wrap-up and, thus, several methods are used to control site losses. Contractually, contractors are required to comply with the site safety program. The on-site safety agent provides additional resources to supplement the Construction Manager's (CM) or General Contractor's (GC) basic program to insure such compliance. Many larger projects also offer the OSHA 10-hour and other safety seminars to assure that even the smallest contractor receive the safety education necessary. In addition, the contractors' individual loss experience is reported to the Compensation Bureau (in the same manner his non-wrap-up losses are reported) – these

loss reports form the basis for the contractor's Experience Modifier. All bid documents should state that premium and loss experience incurred by each wrap-up contractor and/or Subcontractor of any tier will be reported to the NCCI (National Council on Compensation Insurance) in the normal manner used to calculate future contractor experience modifications. Poor experience results in a higher modification, which directly impacts their overall workers' compensation costs. In addition, a debit modification may result in the contractor being precluded from bidding jobs for certain owners or general contractors.

In addition, some wrap-ups use incentive and disincentive (with less predictable results) programs. For example, Wrap-up contractors may receive incentives for completing jobs with fewer-than-expected losses or no lost-time accidents. These incentives can be effective when extended to the employees and may be relatively modest in actual cost.

Contractors with less than exemplary safety records, however, may win contracts under a Wrap-up that would be unattainable if each contractor had to pay for its own insurance. This unfair advantage is a criticism of Wrap-ups that owners may want to address by including thresholds for safety records in bid documents.

Q. Who pays Wrap-up premiums and related expenses?
A. The owner pays all premium costs and related expenses for the design, marketing and administration of the wrap-up. It is important to remember that even under the traditional contractor provided insurance approach the owner pays the cost of insurance – it is included in the overall bid.

Q. Is the Owner's outlay for the Wrap-up premium plus related expenses less than its outlay under a non-wrap-up construction project?
A. Yes, on well designed and managed wrap-ups. The elimination of insurance costs from contractor bids combined with the savings related to safer work sites and dividends for reduced frequency of accidents typically more than compensate for the owner's outlay for wrap-up premiums and expenses. As a rule-of-thumb, the owner can expect to save from 10 percent to 25 percent of contractor-provided-insurance costs or 1 percent to 3 percent of project construction costs.

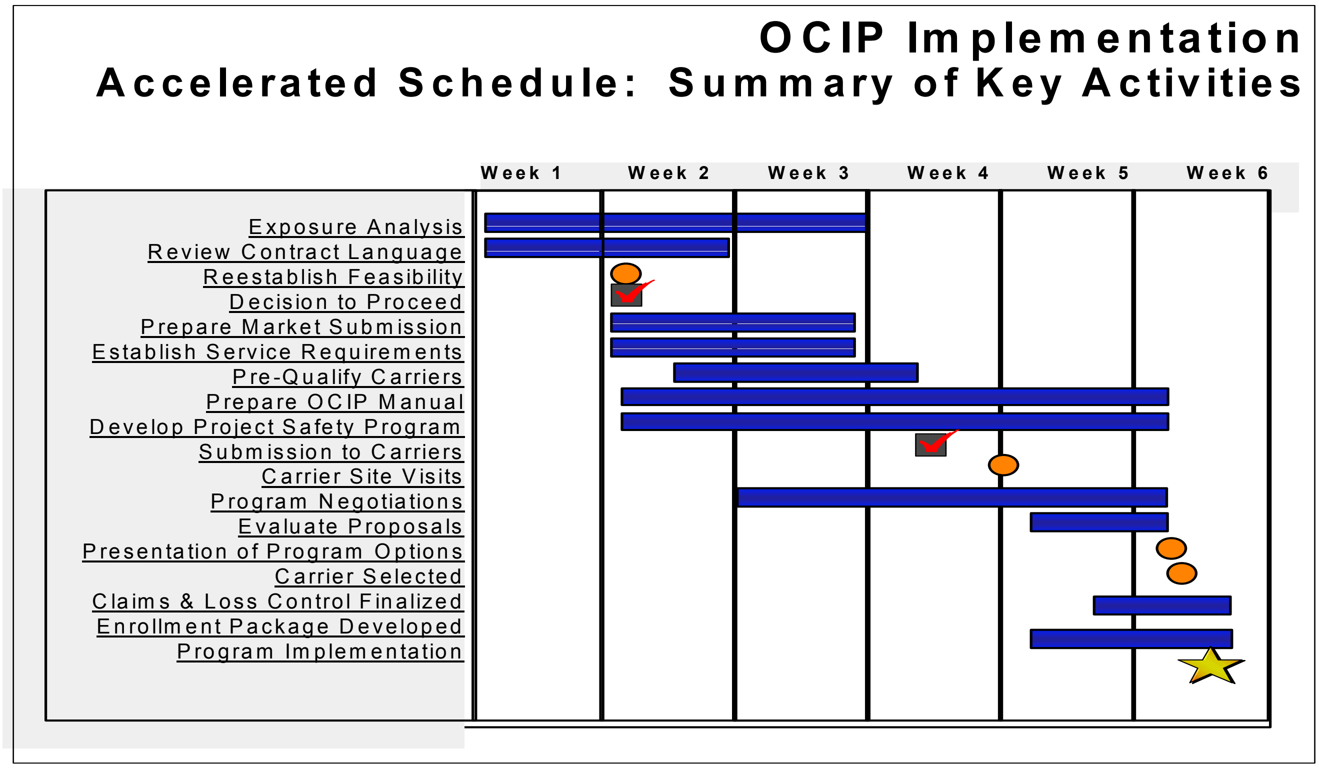
Q. When does the Wrap-up decision have to be made?
A. If a project is going to be built under a wrap-up, the decision should be made before the owner selects prime contractors by including wrap-up enabling language in the bid proposal documents for design-bid-build projects or in the Request for Proposal document for design-build projects. Although this is the preferred method, the owner can retain its options by including wrap-up enabling language in the bid documents or RFP. This language states that the owner has the option to implement a wrap-up and requires the contractor to isolate insurance costs when bidding. Collecting the information and conducting a feasibility study on the viability of a wrap-up can take from two weeks (very fast track) to two months. See Exhibit A.

Q. How long before construction is scheduled to begin does the design of a Wrap-up have to begin?
A. There is no set rule. The owner should allow sufficient time to evaluate feasibility, choose a broker and provide the broker with sufficient time to develop an underwriting submission, negotiate with the insurance markets and present results. All parties then must develop the necessary procedures and manuals to support the program. Depending on insurance market conditions, the process typically takes three to six months, however, in many instances work can be accelerated to accommodate the owner or project schedule.

Q. Are Wrap-up premiums less than prime contractor premiums plus mark-up?
A. Sometimes. Generally, large regional and national contractors pay very small increases in their existing premiums to add coverage for another project. Consequently, even when those amounts are marked up for profit, the cost included in a large contractor's bid on a non-Wrap-up job may be less than a smaller contractor's bid for the same work.

Q. How are reserves treated by the FHWA?
A. Owners may use federal funds for reserve accounts, however, the reserve account balance may not exceed the actuarially projected value of incurred claims and the reserve amount for any future payout, for such items as disability claims, may not exceed the present value of the expected payout. The interest earned on the account should pay any difference between present and future payouts. The reserve account must be adjusted every year and if the account balance is greater than the projected amount and any eligible program costs, the excess must be paid to the State's federal-aid account immediately. See the Appendix for the FHWA policy.

Exhibit A



V. COST CALCULATIONS

To understand how wrap-up costs are developed, consider the following brief review of the components of the insurance premium. All insurance premiums (the dollars necessary to insure a particular risk) must include a cost provision for program costs (70 percent) and carrier expenses (30 percent). For any construction project, wrap-up or conventional, the insurance coverages required generally will include workers' compensation and employer's liability, general liability, builder's risk, property insurance and boiler & machinery coverage.

- Program Costs
  - Expected Losses
  - Loss Handling Costs (adjusting)
  - Services (loss prevention, claims management)
  - Risk Transfer (insurance)
- Carrier Expenses
  - Insurance Carrier Overhead
  - Policy Administration (policy issuance, audits)
  - Premium Taxes and Assessments
  - Insurance Carrier Profit

A. Workers' Compensation Rates

Each state and the District of Columbia develop rates (per $100 of Payroll) for over 600 different job classifications. The rates are based on the jurisdiction's loss experience reported by each employer and include a reflection of the insurance company(s) requirements for the expenses identified above. The premium generated by these rates cover, on a prospective basis, expenses, expected losses and loss handling costs. With minor variation, all carriers use the same rates.

B. How Rates Are Applied

The published rates are applied to the contractor's payroll to develop the Workers' Compensation Premium. Applying an Experience Modification Factor, which is unique to each contractor and reflects that contractor's prior loss history, modifies these premiums. The resultant premium, which varies only as a result of payroll fluctuation, is referred to as a guaranteed cost premium. The contractor then determines the charge to include in the bid by applying the rates to the estimated project payroll and adding mark-up for fees or other burdens and contingencies. Actual loss experience does not influence the premium – if actual losses are only 50 percent of the total premium – the insurance carrier (or contractor) retains the "excess".

C. How Savings Are Realized

The wrap-up develops its cost savings by using a structure that isolates the expense and loss components of the premium with the following results:

1) Overall costs are reduced by using the economies of scale and market leverage.
2) Actual losses are less than market experience.
3) Administrative costs are reduced through centralization of activities.
4) Although the services provided are enhanced, the elimination of duplication results in cost savings.
5) The contractor mark-up loaded into the bid is eliminated.

It is not unusual to reduce the 30 percent expense provision by 40 percent to 50 percent through the use of a wrap-up. Savings that result from the implementation of the program, which tends to reduce loss experience by a significant percentage, can be collectively referred to as the "up front savings".

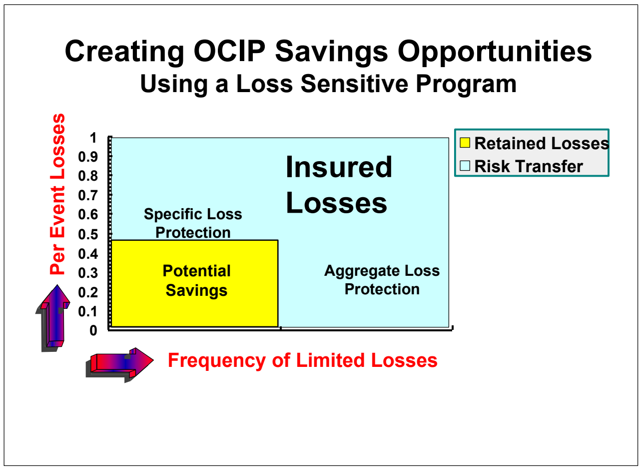
D. General Liability

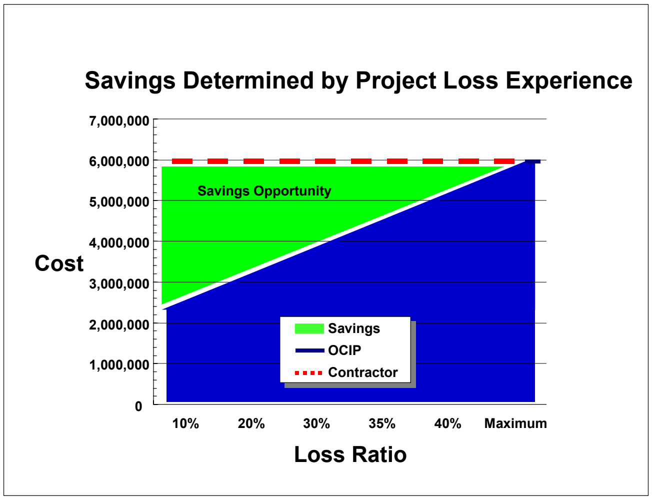
The General Liability premium (cost for the actual risk transfer or insurance and specified expenses) is discounted to reflect administrative savings (only one policy is issued for all parties), more efficiently deployed loss control, claims and auditing services, and the reduction in exposure from cross contractor suits and subrogation claims from workers' compensation carriers.

The most significant savings opportunities are developed as a result of the actual project loss experience. Wrap-ups historically have generated better loss experience (safety records) than both the Insurance Bureau rate allocations of 70 percent and general construction industry statistics. The project specific claims service and the single project safety program typically produce loss ratios ranging from 30 percent to 45 percent.

1) Loss Sensitive Programs

To create this savings opportunity, wrap-ups are usually written on a "loss sensitive" program. This means the insurance "premium" is determined by adding the expenses to the actual losses and loss handling costs. Rather than fixing the cost on a prospective basis, the cost is determined retrospectively. To protect the owner from the financial impact of unforeseen catastrophic losses the impact of any one event is capped. In addition, further protection is provided by capping the total amount of project losses that can be used to calculate the final wrap-up cost. This structure is used for the Workers Compensation and General Liability Coverages of the wrap-up.





Over the past five years, there have been a limited number of wrap-up programs written on a guaranteed cost basis. The premium is adjusted based on payroll audits and in some cases changes in the state workers' compensation rates. The premium is unaffected by the loss experience of the project. Savings are developed by the economies of scale and reduction in administrative costs. They offer no opportunity to benefit from good loss experience but cannot be adversely affected by poor experience. An informal poll of the leading wrap-up carriers indicates that carriers will be reluctant to offer programs on this basis.

2) Pollution Liability, **Professional Liability** and **Excess Liability** (Catastrophic Protection) achieve their cost savings and coverage enhancements by effectively leveraging the economies of scale presented by a single consolidated purchase and the reduction in exposures previously identified.

E. Property Insurance

1) Fire and all Perils

The program insures its buildings and their contents against the perils of fire, extended coverage, vandalism and special extended coverage. The coverages include direct damage caused by such perils as fire, lightning, windstorm, hail, smoke explosion, riot, vehicle damage and collapse to name a few.

(a) Loss Limit (any one occurrence)
(b) Blanket value
(c) Self-insured retention (deductible)
(d) Aggregate retention
(e) Catastrophe limit

2) Scheduled Property

The program has elected to insure certain property on scheduled basis. Coverage is on an "all risk" basis and included the following property:

(a) Electronic Data Processing equipment
(b) EDP data and media
(c) Deductibles

F. Boiler & Machinery

Insurance is carried for direct damage to boilers and related equipment. The coverage applies to damage to boilers, water tanks, air tanks and other vessels arising from explosion or other kinds of accidental breakdown. In addition to insurance protection, the policy provides ongoing inspection service.

G. Builder's Risk

Insurance covering the project during the course of construction. Coverage is generally written on an "all risk" basis subject to certain exclusions such as consequential delay (see Business Interruption), inherent vice, nuclear risks, contamination, mechanical breakdown, war and new policies may include terrorism exclusions. Each carrier has its own form and the scope of coverage may differ. Many of the exclusions can be deleted for additional premium or are more properly insured under related but separate coverage part or policy.

1) Property Covered: All materials to become a part of the permanent road and/or structure and materials consumed in the construction process are covered. Forms, scaffolds, contractors' equipment and automobiles are not covered.

2) Where Covered: Coverage may be provided at the project site, specified off-site storage areas, and while in transit. Most policies also contain a limited amount of coverage for temporary unnamed off-site storage locations.

3) Duration: The coverage is written for an estimated term to end at substantial completion, occupancy, or when the project goes into revenue production (eg. tolls). Coverage can be amended to address partial occupancy.

4) Limit: The policy limit should be equal to the estimated completed value of the project.

5) Deductibles: Depending on project size and location, deductibles have historically ranged from $5,000 to $50,000 with higher deductibles and sublimits applicable to the perils of flood, earthquake and coastal wind. Current market conditions suggest that underwriters may demand minimum deductibles of $10,000, $25,000 or higher. In addition, terrorism buy-back coverage (where the underwriter will charge an additional premium to delete the exclusion) will likely contain more substantial deductibles.

VI. Program Components

A. Property

Property insurance provides cover for the completed project after cancellation of the Builders Risk coverage. The property covered is any permanent structure and equipment that is part of the project or necessary to the operation of the project (electronic toll booths). The policy provides replacement cost coverage (i.e., what it would cost to rebuild the structure at current prices for the same materials) and is written on an annual basis.

B. Business Interruption and Soft Costs

Business interruption insurance provides coverage for loss of profits, fares, rents, continuing expenses and other consequential loss resulting from direct damage to the insured property. During the construction, "soft cost" coverage is used to insure loss of future fares or tolls or income where project damage delays completion. Cover may also address refinancing or other related costs and additional construction loan interest charges. When the project is completed, soft cost coverage ends and Business Interruption cover can be added as companion coverage to the Property Insurance. The Business Interruption covers insures loss of income or fares resulting from direct damage to the bridge or road. Depending on total value, deductibles have historically ranged from $5,000 to $50,000 with higher deductibles and sublimits applicable to the perils of flood, earthquake and coastal wind. Market conditions in early 2002 suggested that underwriters may demand minimum deductibles of $10,000, $25,000 or higher. In addition, terrorism buy-back coverage (where available) may contain more substantial deductibles.

C. Aviation

Aviation Construction Liability offers the same or similar coverage as the Commercial General Liability policy. Coverage may be written in lieu of General Liability for construction taking place at airport facilities. The aviation alternative is considered a viable option for several reasons:

Coverage: Many General Liability Policies contain aircraft products and completed operations exclusions in recognition that these exposures usually present significant hazards and potentially catastrophic losses. The construction of runways, towers, installation of lighting and similar activities, particularly on the secured airfield presents exposures not generally contemplated. General liability underwriters may require additional premium to address the coverages or secure reinsurance. The aviation marketplace views the coverage as commonplace and routinely offers airports contingent coverage for construction as part of the basic Airport Liability Policy.

D. Automobile Exposure

Contractor vehicles are often operated on the airside. While the contractor may carry otherwise reasonable limits of liability, the exposure warrants greater limits. The Aviation policy can be extended to provide excess automobile liability coverage for all contractors operating vehicles on the airside during construction with little or no impact on premium. The aviation market can offer substantial limits of liability with more cost efficiency.

E. Watercraft

Watercraft liability insurance covers losses arising out of the use or operation of watercraft. Most projects do not require coverage (although the basic general liability form provides coverage on a limited basis for non-owned watercraft under a specified size). Projects over or adjacent to water that utilize barges or transport vessels need to address the watercraft liability exposure. This can be done by contractually requiring the specific contractor to provide coverage, or where operations affect multiple contractors, this coverage can be written on a project basis Watercraft policies provide bodily injury and property damage coverage for losses arising out of the operation of the vessels, including coverages specific to marine insurance policies. Maritime employees do not fall under the state (or District) Workers' Compensation Statutes and the Workers' Compensation policy should be amended to include Jones Act (maritime) and or U.S.L.&H (United States Longshoremen's and Harborworkers' Act) extensions.

F. Trends

While virtually all wrap-up programs incorporate the basic coverages of Workers' Compensation and General and Excess Liability, more and more programs are being expanded to address other risks. Among the innovations since 1997:

1) Expanding the Workers' Compensation program to address longshoremen and maritime exposures for waterfront projects, bridges and tunnels.

2) General Liability Wrap-ups – where projects are in jurisdictions that do not permit wrap-ups.

3) Use of the Aviation insurance market for Airport Wrap-ups. A separate insurance company writes the Workers' Compensation.

4) "Dirty" Wrap-ups – used where significant remediation is required. This approach provides Pollution and Professional Liability and has been used successfully not only for private sector projects but also by contractors working for DOE at Rocky Flats and Hanford.

5) Use of "Buy-out" options to allow the owner to close the wrap-up program more quickly after project completion.

6) Development of Companion Coverages designed to address financial and time (delay) losses.

7) Adding an Owner's Protective Policy to provide separate E&O protection exclusively for the owner.

8) Providing coverage for contractor defaults via insurance rather than the traditional surety bond.

G. Exposure Units and Rates

The exposure unit is the measure of risk used to set the premium and the resultant rate is used to adjust fluctuations in exposure. Each type of policy has its own exposure basis:

Policy	Exposure Units	Adjustment Rate
Workers' Compensation	On-site Payroll	Per $100 of payroll
General Liability	On-Site Payroll or Total Construction Hard Costs	Per $1,000 of payroll Per $1,000 of hard cost
Excess Liability	Flat – or Construction Hard Costs	 Per $1,000 of hard cost
Airport Construction Liability	Construction Hard Costs broken down to isolate airside project costs	Per $1,000 of hard cost with either separate or composite rates used
Professional Liability	Fees	Per $1,000 of Professional Fees
Pollution Liability	Number and type of remediation projects, contract values	Per $1,000 of contract values
Builder's risk	Project Completed or in-place values	Per $100 of value

H. Limits

The limit of liability or policy limit is the maximum amount available in the event of any one loss or (depending on the policy) for all losses during an annual period or the term of construction. Liability limits are a matter of judgment considering such variables as the size and location of the project as well as the number of participating contractors. Builder's risk policy amounts are based on the actual completed building value.

Type of Policy	**How Limits Apply**	**Recommended Limits**
Workers' Compensation	Not Applicable – claim payments are subject to the state benefit schedules	Not Applicable – Statutory coverage provided
Employer's Liability	Bodily Injury – Accident: Each Employee Bodily Injury By Disease: Each Employee subject to an annual aggregate per policy	Not Less than $1,000,000. The Excess markets (which provide additional limits above the primary EL) may require $2M
General Liability	Limit per occurrence (all contractors) Annual Aggregate (all Contractors) Products Liability/Completed Operations* is usually written with a Project Aggregate Limit	Not less than: $2 million Occurrence $4 million Aggregate $2 million Products/Completed Operations Aggregate
Excess Liability	Provides additional limits excess of the primary Employers' Liability and General Liability policies. The limits apply on the same basis (follow-form) as the primary policies	Judgment based on size of project ranging from $25 million to $100 million with limits for airport projects reaching as high as $500 million
Professional Liability	Each claim and in the aggregate for the project term (applies to all eligible professionals)	Not less than $20 million up to $50 million
Pollution Liability	Each claim (may be written on occurrence basis) and in the aggregate for the project (or annual period)	Not less than $10 million depending on exposure
Builder's risk	Total completed project value	

* That the materials used and the finished project are suitable for their intended purpose.

I. Retentions

The retention or deductible is the amount of each loss (and all losses) paid by the insured. Insurance carriers and insureds use deductibles to control costs. Deductibles and the credit for using it varying among policies and carriers.

J. Range and Type of Deductibles

1) Workers' Compensations and General Liability

Basic wrap-ups (workers' compensation and general liability), when written on a loss sensitive program (preferred structure) usually are written with a minimum deductible (loss limit) of $100,000. Due to changing market conditions many carriers are increasing the minimum deductible to $250,000 each occurrence. Some projects with more significant exposures carry deductibles of $500,000 to $1,000,000. The higher the deductible, the lower the expenses charged to the program and the greater the opportunity for overall savings from good experience. The basic wrap-up usually contains an aggregate deductible (maximum of owner's responsibility for retained losses) based on a multiple of the carrier's estimate of overall project losses. For example, if project losses are projected at $3,000,000. The carrier might agree to cap losses at $4,500,000.

2) Excess Liability

Excess Liability policies do not have retentions; they use the underlying (primary wrap-up policies) policies in a manner similar to a deductible. The excess policy will pay losses that exceed the primary occurrence limit or where the primary policy aggregate is impaired or exhausted.

3) Pollution and Professional Liability

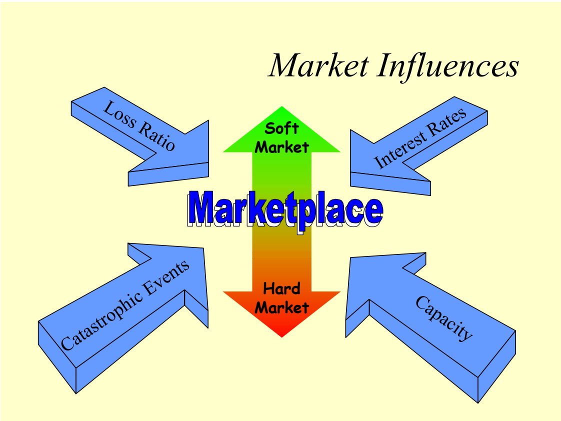
Pollution and Professional Liability deductibles or retentions are usually written to apply to each claim, occurrence or loss and contain no aggregate cap. Project Professional policies usually are written with deductibles ranging from $50,000 depending on project size and other factors. The owner, architect and the architect's' subconsultants should have a pre-agreement on who is responsible for deductible payments. Generally the lead architect bears the majority of the deductible and may allocate portions to responsible subconsultants. Pollution policies usually carry lower deductibles ranging from $5,000 to $50,000.

4) Builder's Risk Deductibles

Builder's risk deductibles, which apply on a per loss basis, have been as low as $5,000 and have ranged up to $25,000. Due to current market conditions, deductible minimums may increase to $50,000 and even $100,000. Earthquake, flood and coastal wind losses are subject to higher deductibles- depending on the carrier and market conditions. These deductibles may be a stated amount, such as $100,000 or a percentage of the loss.

VII. THE INSURANCE MARKET

A. Market Influences



When considering a wrap-up, one of the most important trends to consider is the state of the insurance market. The number of carriers qualified and willing to underwrite wrap-ups has increased dramatically over the past 25 years resulting in a very competitive marketplace. One of the important results has been the virtual elimination of "upside" risk associated with wrap-ups (see how premium is developed).

Since 2000, the insurance marketplace has been undergoing a transition with costs increasing and availability diminishing. This resulted in cost increases of 20 percent to 50 percent to correct the under-pricing of previous years.

B. Emerging Claim Challenges

1) Expanded Asbestos
2) S&A Environmental
3) Lead Paint
4) Construction Defects
5) Synthetic Stucco
6) Pharmaceuticals
7) Class Actions
8) Tobacco
9) Mold and Mildew
10) Cell Phones
11) Nursing Homes
12) Tires
13) Fuel Additive (MTBE)
14) Ohio UM/UIM
15) Internet-derived Exposures

The market was affected by the events of September 11, 2001, with the potential for losses in excess of $70 billion. The reinsurance (secondary market) has virtually eliminated any coverage for terrorism. Primary insurers cannot eliminate coverage without state approval and terrorism cannot be excluded from workers' compensation policies. The resultant dramatic market "hardening" characterized by substantial premium increases, coverage restrictions and available limits has been felt across all lines of coverage and all businesses.

C. Transitioning to a Hard Market

1) Year 2000 Combined Loss Ratio 110.1%
2) Year 2001 Projected Results 119.9%
3) Year 2001 Commercial Lines Projected 130.0%
4) Shareholder pressures to produce underwriting profits
5) Continued pressure to maximize investment income
6) Reinsurance consolidation and tightening
7) Retail insurance carriers out of business or downgraded

In addition, the financial strength of many insurers and reinsurers is now an issue with many rating agencies downgrading companies and the number of insolvencies increasing. Insurance companies have upgraded the qualification for evaluating reinsurers in what has been called a "flight to quality". This reduces the number of available reinsurers and ultimately translates to higher prices.

The reduced capacity (availability of limits), coverage restrictions, cost increases and financial strength of insurer are affecting all contractors in varying degrees. This market instability translating in higher construction costs and lack of consistency are even more compelling reasons for an owner to exercise control of the insurance program.

While it is true that these issues also affect the markets writing wrap-ups, these programs historically have produced more profitable business than "un-wrapped" construction accounts. A survey of the top five wrap-up insurance markets and found that they are continuing to offer wrap-up programs. Overall costs may be affected by each individual carrier's reinsurance costs as well as the carrier's overall profitability and the profitability of their construction and wrap-up accounts.

D. Feasibility Studies

The feasibility study is used to determine if the project qualifies for wrap-up consideration. A feasibility study is a cost/benefit analysis comparing the cost of contractor provided insurance to the cost of an owner controlled insurance program. The study also considers non-financial considerations such as the workers' compensation jurisdiction, rules governing the use of wrap-ups, the type of project and other factors that could influence the potential for cost savings. The feasibility study may be developed by an independent consultant or by a broker. The consultant will charge a fee, but has no interest in the results. The broker may include the cost of the study in its fee to market and administer any subsequent program.

The preliminary cost evaluation generally is provided by a consultant, the chosen broker, or as part of the RFP response from all brokers. At this early stage, the cost projections are based on the estimated hard costs, broken down by trade specialty (if available). These costs are used to project the unburdened payroll by trade, which are organized by workers' compensation class codes.

Feasibility studies are used by owners to determine the viability of a wrap-up for their projects. Insurers will require feasibility study information and additional information (e.g., hard and soft costs, projected payroll by trade, term-of-project, relevant experience of prime contractor, type of construction) to determine coverage specifics, including premiums, minimum deductibles, safety program requirements and maximum payouts for claims (i.e., annual aggregates).

Step 1 - Developing Payroll Estimates and WC Premium

Residential High Rise							
Construction Hard Costs			85,000,000				
Work Category	Breakdown	Total Value	Labor %	Derivative Payroll	WC Code	Rates	Est. Standard Premium
General Conditions	General/Extended Conditions	4,620,000	60.0%	2,772,000	5606	4.76	131,947
	Material/Personnel Hoists	990,000	20.0%	198,000	5213	33.02	65,380
	Partnering	990,000	80.0%	792,000	8810	0.59	4,673
Sitework	Mass Excavation	200,000	25.0%	50,000	6217	14.27	7,135
	Excavation & Backfill	150,000	25.0%	37,500	6217	14.27	5,351
	Import Fills/Export Spoils	20,000	25.0%	5,000	6217	14.27	714
	Dewatering	100,000	20.0%	20,000	6229	12.72	2,544
	Soil Treatment	10,000	20.0%	2,000	6229	12.72	254
	Drainage Wells	125,000	20.0%	25,000	6229	12.72	3,180
	Irrigation System	35,000	20.0%	7,000	6229	12.72	890
	Seawall Improvements	175,000	20.0%	35,000	5213	33.02	11,557
	Precast Well Structures	60,000	30.0%	18,000	5213	33.02	5,944
	Pavement Striping	30,000	20.0%	6,000	5506	16.46	988
	Curbs, Gutters	75,000	20.0%	15,000	5506	16.46	2,469
	Precast Interlocking Pavers	175,000	20.0%	35,000	5506	16.46	5,761
	Cast Keystone	200000	20.0%	40,000	0042	17.30	6,920
	Landscaping	375000	18.0%	67,500	5213	33.02	22,289
Concrete/Steel	Formwork	7,140,000	20.0%	1,428,000	5213	33.02	471,526
	Concrete Materials/Pumping	4,050,000	20.0%	810,000	5221	15.37	124,497
	Reinforcing Steel/Tensioning	3,725,000	20.0%	745,000	5213	33.02	245,999
	Hoisting	1,190,000	20.0%	238,000	5213	33.02	78,588
	Concrete NOC	740,000	20.0%	148,000	5213	33.02	48,870
Metals	Structural Steel	1250000	22.5%	281,250	5040	51.50	144,844
	Space Frame (Sheet Metal)	350000	22.5%	78,750	5538	16.89	13,301
	Non-Structural/Ornamental	588000	25.0%	147,000	5102	15.61	22,947
Masonry	Exterior/Interior Unit Masonry	1,290,000	25.0%	322,500	5213	33.02	106,490

Step 2 - Development of Contractor's Insurance Costs and Estimated OCIP Cost Components

	Contractor & OCIP Cost Development		
	Workers' Compensation		
	Contractor Cost		**OCIP Cost**
WC Standard Premium	3,214,559	WC Standard Premium	3,214,559
Coverage B	0.033	Coverage B	0.033
Cov B Premium	106,080	Cov B Premium	106,080
Total Standard Premium	3,320,639	Total Standard Premium	3,320,639
Est. Experience Mod	0.90	Est. Experience Mod	0.90
Modified Premium	2,988,575	Modified Premium	2,988,575
Premium Discount %	8.50%		
Discounted Premium	2,734,546		
Expense Constants	5,000		
Sub-Total	2,739,546		
Fee + 5%	136,977		
		Deductible Factor	0.85
WC - Total Premium	**2,876,524**	Deductible Credit	2,540,289
		WC - Deductible Premium	**448,286**
	General Liability		
	Contractor Cost		**OCIP Cost**
Estimated Premium	958,841		
Fee + 5%	47,942		
GL - Total Premium	**1,006,783**	**GL - Deductible Premium**	**352,374**
Total WC/GL Premium	**3,883,307**	**Total Deductible Premium**	**800,660**
	Umbrella Liability		
Limit: $5 to $10 Million	**Contractor Cost**	**Limit: $25 Million**	**OCIP Cost**
Minimal Estimate	75,000		
Fee+ 5%	3,750		
Umbrella Total	**78,750**	**Premium**	**350,000**
		Brokerage & Admin	**220,000**
TOTAL	**3,962,057**	**TOTAL Expenses**	**1,370,660**
		See OCIP @ Expected Losses for Total Cost	

The applicable workers' compensation rates are applied and a cost for general liability is added. With the addition of a loading for the contractors' profit, administration and contingency costs this represents the estimated cost of contractor provided insurance. Then, based on current market results (benchmarking) the wrap-up costs are estimated and compared to the contractor's cost. The evaluation of potential savings (and upside risk) is determined by using an estimate of projected losses for the project and a projection of the aggregate amount of losses to be used in determining the wrap-up premium (see how premium is developed).

Step 3 - Preliminary Projection: Savings vs. Risk

OCIP "Expected" Cost		
A. Losses		
	Loss Ratio %	Losses
Workers' Compensation	40%	1,095,818
General Liability	10%	95,884
Total		**1,191,703**
B. Adjustment Expense		
	8.00%	95,336
Total		**95,336**
C. Deductible Premium		**800,660**
Primary WC/GL Total (A+B+C)		**2,087,699**
Brokerage		**220,000**
Umbrella		**350,000**
TOTAL OCIP "EXPECTED" COST		**2,657,699**
Contractor Deduct @ 90%		**3,565,851**
SAVINGS		**908,152**

OCIP "Maximum" Cost		
A. Losses		
	Loss Ratio %	Losses
Workers' Compensation	68%	1,849,194
General Liability	20%	191,768
Total		**2,040,962**
B. Adjustment Expense		
	8.00%	163,277
Total		**163,277**
C. Deductible Premium		**800,660**
Primary WC/GL Total (A+B+C)		**3,004,899**
Brokerage		**220,000**
Umbrella		**350,000**
TOTAL OCIP "MAXIMUM" COST		**3,574,899**
Contractor Deduct @ 90%		**3,565,851**
RISK		**(9,048)**

VIII. BROKER SELECTION

A. Types of Brokers — The broker or agent is the party that will represent the owner in the insurance market and provide the administrative services during the like of the wrap-up.

The choice of broker is critical to the success of the program. It is the broker's responsibility to translate the project risks into required coverages, assist with wrap-up contract language, develop the underwriting submission, suggest and negotiate options and guide the owner throughout the carrier evaluation and selection process. The broker also must develop the project manuals, review and assist in negotiating contractor bid deductions and manage the contractor enrollment and administration.

Brokers and agents may be local, regional, national or even international in scope. The relative size or number of offices does not necessarily qualify or disqualify a broker as a viable wrap-up broker except where the project profile presents a significant geographical challenge. Many wrap-ups are managed off-site with visits by the servicing team as needed. This is actually quite common since it is not unusual for the owner and the project to be located in different cities. Many wrap-ups are large enough to require housing the broker's servicing team on-site.

If the project is multi-site, the RFP should include a specific servicing plan to evaluate the ability of local brokers to deliver the necessary services.

Although the larger brokers manage many projects, it is also important to consider the importance of a local team (or local agent or broker). Local knowledge of the contracting community and medical provider organizations may offer some advantage.

Although relative size is not necessarily an absolute qualification or disqualification, an owner should consider the market influence or clout generally associated with national and international firms as well as the depth of resources. The RFP should be designed to evaluate the potential benefits of size rather than size itself.

To help ensure that the chosen broker actually is providing services that protect the owner's interests, the broker's contract should require, at a minimum, that the broker submit semi-annual reports on the following program components:

1) **Claims**, including open/closed status, initial and revised reserve amounts, deductible payments, expenses, professional fees
2) **Carrier evaluations**, including financial rating changes, response to inquiries and incidents, problems and resolutions
3) **Broker activities**, including benchmarks met and unmet, renewal goals, DBE participation, outstanding issues

B. International Insurance Markets

International insurance markets, especially those in the United Kingdom and France, have long provided excess and specialty wrap-up coverages, that include most all program coverages with the exception of primary workers' compensation.

C. Excess Liability

Non-U.S. insurers, including Lloyd's of London syndicates, frequently are used to provide excess coverages, that is limits that kick in after primary limits have been exhausted by claim payments. The attachment point for excess limits is very much dependant on the project and the primary carrier. As a rule of thumb, however, the minimum attachment ranges between $1 million and $5 million. The primary carrier generally also will write the Workers' Compensation coverage and be involved in safety and project management. The non-U.S. insurer can then provide substantial excess limits on a follow-form basis (i.e., terms and conditions the same as the primary insurer's). The policy can be placed either as a wrap-up or as a CCIP, depending on the contractual obligations and assumption of liability between the owner and the prime contractor this could affect the rating.

D. Professional Liability
Similar to excess liability coverages, historically there have been significant limits available in the international market for Project Professional exposures and this can be written on a primary basis. The policy form for this coverage is claims made (i.e., the incident giving rise to a covered claim and the actual filing of the claim must occur during the policy period). The policy can be placed either as a wrap-up or as a CCIP, depending on the contractual obligations and assumption of liability between the parties involved this would affect which coverage would most suit the individual project.

E. Property
There are large limits available in the international insurance market for Builder's risk, both for the project values and machinery, however at this stage the number of players is fairly limited.

In addition to the regional, national and international brokers, most public sector wrap-ups require partnering with a minority or woman owned business. The DBE or WBE are generally smaller, local firms that can offer specialized construction or wrap-up expertise.

F. Broker RFP Preparation
There are two generally acknowledged methods of selecting the wrap-up broker: Conceptual and Competitive.

The **conceptual** competition is designed to evaluate the broker's experience and the scope of services they will provide. The owner chooses a broker based on pre-determined criteria for selection designed to evaluate the broker's ability and based on the fee for service. This type of competition is general open to all brokers with the typical number of respondents ranging from five to ten. The winning broker is then responsible for managing a competition among qualified carriers for the actual insurance coverages. This allows the owner to focus on selecting a broker that can not only manage the administration of the contractors throughout the program but also work with the owner to develop and insurance program that meets their objectives.
The less frequently used **competitive** competition method is to have a number of brokers enter the insurance market and negotiate actual quotations. The broker adds its fee to the insurance quote and the owner must evaluate the insurance quote, broker fee and the services provided. This method is problematic and difficult to manage for a number of reasons:

1) There are a limited number of qualified wrap-up insurance companies.
2) The owner has to prepare the underwriter data rather than relying on the skill and experience of the broker.
3) The result typically is an "off-the-shelf" program rather than one specifically tailored to the project and the owner's objectives.
4) Viable markets may be squandered limiting choices – a case of wrong broker/right market.
5) In order to maintain a fair and level playing field, the owner's participation in the marketing and negotiating process is virtually eliminated. The result is likely higher premiums than necessary.
6) The selection and evaluation process becomes a series of trade offs rather than a choice of right broker/right market.
7) Many markets are reluctant to participate in this type of process, they feel their opportunity is limited and their ability to effectively underwrite the project and the participants is diminished.

G. Broker Compensation Options
Broker compensation is the value paid for the wide range of services required to design, market and administer a wrap-up program.
Brokers can be compensated under a number of arrangements:

1) Commission — This process includes the compensation in the insurance premium, based either on the carrier's pre-determined commission rates or on specific amounts (usually less than the regular rate) built into the premium. It is determined by premium size, rather than the work performed by the broker. When market prices are low, the compensation is inadequate and when market conditions harden, the commission may be excessive.

2) Fee — Wrap-ups are generally brokered and administered on a fee basis. The broker identifies the fee as part of the conceptual broker selection competition. The fee is usually all inclusive based on the Statement of Work in the RFP and the response. Some fee arrangements allow for adjustment based on a number of factors, among them:

(a) Project duration longer than anticipated (typically the broker continues on a pro-rated monthly fee)
(b) Number of participants significantly different than estimated requiring added (or reduced) administrative costs.
(c) Scope of services amended–for example adding on-site full time safety, claims or administrative personnel
(d) Re-marketing as a result of market conditions (particularly if re-marketing occurs within three to five years of inception)

3) Fee with Commission Offsets — This is basically a fee arrangement, but it acknowledges that certain coverages, particularly (higher) excess liability limits are often quoted at a minimum premium per million of coverage. Asking the market to quote "net of commission" generally results in the same minimum premium. Brokers generally obtain these quotes including commission, disclose it and offset the amount against the fee.

4) Gainshare or Pay-for-Performance — This approach is used in conjunction with fee compensation. The broker will put part of the fee "at risk" based on achieving specific performance milestones. The milestones can be related to performing certain services, achievement of premium targets, and depending on the extent of safety services provided, the actual loss results.

H. Broker Questionnaire — The key information that should be requested of potential brokers includes the following items:

1) Descriptions of the people and their experience with similar wrap-ups who will provide day-to-day service on the account.
2) A list of wrap-up or construction clients of the people to be assigned to the account, the broker's servicing and other offices.
3) Information about the firm's access to specialized or technical expertise in construction related areas.
4) How and by whom program administrative functions will be handled.
5) The type of documents or manuals recommended as for project contractors.
6) Process used to close-down a multi-year program.
7) How the DBE participants will be compensated and the level of compensation.
8) Compensation basis (commission, fee, hourly rate) and fees for optional services or products.

IX. Program Selection

A. Project Information

Project Information is the information necessary to identify and evaluate project risks and provide the information used by insurance carriers to underwrite the wrap-up program coverages

The information is used by the broker as a tool to assess the project exposures and design the wrap-up coverages to address these risks. The information is also used to develop the underwriting submission.

Wrap-up is developed by using a form of RFP to approach pre-qualified insurance companies. The solicitation and ensuing competition will encompass not only the program coverage and cost but also the carrier services necessary to ensure the success of the program(s).

Each carrier should respond to pre-defined coverage requirements, specifically identified loss control services, claims services, data management services and administrative responsibilities.

The selected wrap-up broker works with the owner to determine their objectives and requirements. The broker then develops the coverage and service requirements as part of a comprehensive underwriting submission.

It is critical that the broker have the experience to design the appropriate coverages and services, and present the project and its exposures to the (insurance) markets in a manner that encourages the underwriter to achieve the most competitive terms and conditions available.

B. Preparing A Comprehensive Underwriting Submission

Once the broker has been selected, the owner and broker will work together to prepare a document to be provided to potential insurers. This document is the underwriting submission, which must accurately explain the project, identify the desired coverages and services and, provide positive differentiation that may favorably influence the underwriter's assessment of the project.

C. Project Information — This is descriptive information, site plans, surveys and assessments and other information that helps to educate the underwriter. For example, the exposures presented by the restoration of the sea wall are (relative to constructing a bridge) unusual and present additional hazards that can negatively impact price, or even insurers' willingness to quote. Details should go beyond merely identifying the work, by providing information (as available) regarding the methodology and the safety standards that will be employed to minimize risk.

D. Exposure Data — This data typically includes estimated payrolls, by job classification, and work schedules. This also may include information on adjacent properties and how the potential property damage exposures will be controlled. It should also identify any exposure from the public (such as pedestrian and vehicle traffic) and again, describe the safety and control methods to be employed.

Following is a list of the types of information required prior to implementing a wrap-up. The type of project (road, rail, bridge, airport) will determine the exact information required and at what point it will be required by underwriters, brokers and other parties to the wrap-up.

E. Project Information

1) Project description
2) Subcontracts by trade, if applicable, and levels at which subs can be hired without bid or pre-qualification by General Contractor/Construction Manager
3) Sample contract including insurance requirements and indemnification provisions
4) Bonding requirements, if applicable
5) Work within 50 feet of existing rail tracks (owner and other's)

6) Location
7) On-site labor cost breakdown by year for the term of the project
8) Workers' Compensation remuneration by class code
9) Workers' Compensation remuneration by trade
10) Work-hour estimate by trade
11) Unburdened contractors' labor costs (i.e., straight-time) by trade
12) Total unburdened labor cost
13) Non-US payroll
14) Estimated total cost of project
15) Estimated hard construction cost by major item, broken down by material and installation components
16) Construction schedule (start and completion dates)
17) Work-flow chart
18) Description of any unusual exposures (i.e., USL&H, tunnels, extensive excavation, blasting)
19) Description of the project and construction processes
20) Description of the professional team (e.g., architect, structural engineer, mechanical engineer)
21) Survey reports (e.g., geotechnical report, environmental impact statement, test boring results)
22) Funding arrangements for the wrap-up
23) If this is an extension of the existing system, will operations of existing facility/ies continue during the construction period?
24) Distance from nearest river, lake, sea, ocean, reservoir
25) Construction Manager and/or Project Manager
26) Samples of contracts to be used (should include insurance an safety requirements)
27) Owner, Construction Manager, Project Manager and Prime Contractor's Workers' Compensation experience modification for the prior four years
28) Copy of Owner's Safety Program – note whether there will be a full-time site safety coordinator under contract to the Construction Manager and/or Project Manager
29) Formal name and general description of the Project
30) Selection of drawings, photographs along the alignment and any other documentation that might assist insurer's appreciation of the project.
31) Site location including a map showing the full alignment. The map should show the proximity of third-party property surrounding the alignment.
32) Complete schedule of locations
33) Environmental Impact Statement
34) Soil Report
35) Indications of Prior Use of Project Site
36) Contact person for physical site survey
37) The total cost of supply and construction with a breakdown into the key elements, for example,
- (a) Trackway
- (b) Crossings
- (c) Stations
- (d) Signaling and communications
- (e) Fare collection
- (f) Depot and Workshops
- (g) Electrification
- (h) Vehicles

38) A bar chart showing all activities from start of construction on-site to completion of testing and commissioning
39) Details of the total length of any trackway and split, including
- (a) At-grade
- (b) Semi-depressed
- (c) Elevated
- (d) Cut-and-cover

(e) Tunnels
(f) Description of all structures either below or above ground, e.g., elevated structures:
    (a) Number of spans
    (b) Average height of spans
    (c) Length of spans
    (d) Crossings

40) Details of all road or river crossings. If the alignment will cross any significant underground or over-ground services, describe. Does the contract involve any diverting of such services?
41) Details of ground conditions, ground water level and meteorological information
42) For construction work on or about areas with heavy traffic, details of safety measures, e.g., night work, traffic diversions
43) Number of stations (depots and workshops) and details of the station structures
44) Description of the depot/workshop structure(s) and the maximum value of property that will be located at the depot/workshop at any given time, e.g., railcars/buses to be located at depots/workshops at night
45) Security and fire fighting measures that will be in place at the depot/workshops
46) When and in what form will railcars/buses arrive at site
47) Indicate whether rolling stock items will be fully assembled prior to arrival at the sire or will they be partially assembled at the site
48) Describe all on-site railcar/bus testing and commissioning activities and the duration (this may be shown in the bar chart)

F. Excess Liability

1) Brief description of the project.
2) Type of construction/design, is it tried and tested or innovative.
3) The estimated construction values, preferably split between hard costs and soft costs.
4) Who is the prime contractor?
5) How many subcontractors will be used, how many subcontractor employees on site.
6) Estimated period of construction.
7) Safety procedures employed on-site and with regard to third parties.

Depending on the above underwriters may have some further questions and require some additional information.

G. Professional Liability

Information required is very similar to the above as regards the project, with the addition of:

1) Details of the prime architect/engineer
2) Number of subcontractors involved
3) Details of fees

With the above non-U.S. insurers should be able to obtain negotiable terms although underwriters may have additional questions and require an application to be completed and sight visits. Some markets also will require an independent legal/engineering review be completed at their expense (subject to receiving an order to bind coverage) and approval of the final contractual agreements.

H. Property

As well as a description of the project underwriters will need the following:

1) Details of the project values and probable maximum loss
2) Details of the location as respects natural perils, i.e., earthquake, windstorm, flood and fire

I. Force Majeure — To develop premiums, underwriters typically need the following information:

1) Brief description of the project, values, type of construction and similar information
2) Duration of project, including any anticipated period for delays
3) Description of how the project is financed and how the debt is to be serviced on completion of project (revenue-to-debt projection)

4) Estimated cost to service the debt (weekly/daily) if project is delayed and to whom would the insured be financially obligated (e.g., surety, bank)
5) Amount of the deductible the insured would be willing to absorb (e.g., number of days multiplied by the daily debt service)
To finalize the placement, an application will need to be completed as well as an independent legal/engineering review of the contract at underwriters' expense should they receive an order to bind coverage.

J. Liquidated Damages — Information needed to obtain premium indications would be similar to what is needed for *force majeure* although from the prime contractor's perspective. As with *force majeure*, to finalize the placement an application must be completed and an independent legal/engineering review of the contract at the underwriters' expense, should they receive an order to bind coverage.

K. Cost Overrun — This coverage protects the owner should costs increase on the project (not the debt servicing) due to unanticipated events, i.e. the design is amended.

L. Subcontractors
1) Estimated number of subcontractors. List proposed subcontractors (to the extent available)
2) Specify whether work will be performed by union or non-union workers
3) What work will be subcontracted

M. Insurance
1) Indicate any preferences for levels of deductible, design coverage, maintenance coverage and any exclusions
2) Completed Operations requirements (e.g., three years after project goes into revenue production)
3) Claim handling instructions and procedures
4) Approved legal counsel, physician panels, outside experts and similar service professionals
5) Schedule of on-going Builder's Risk policies
6) Experience Modification Worksheet
7) Complete List of Named Insureds
8) Prior carrier information for past four years

N. Claims Handling
1) Copy of the present claim handling instructions
2) Copy of present claims procedures (owner's internal instructions)
3) List of approved legal counsel, physician panels, outside experts
4) Data systems information, including type, capability
5) Chain-of-command
6) Disaster planning program
7) Consultant and/or contractor responsibilities
8) Budget (exclude this item from RFPs for wrap-up insurers)

O. Safety
1) Copies of current contract clauses related to contractor insurance, incentive formulas, safety requirements
2) Companies/individual(s) responsible for safety
3) Outline of site-specific safety programs
4) Substance abuse program description, if applicable
5) Safety and health program for the current wrap-up
6) Overview of safety and health training, including orientation for contractors

P. Key Parties

Merely providing information about the project does not give the underwriter a complete picture. The underwriting process also evaluates the key parties that will manage the project and influence site activities. The most effective submissions include information that identifies these parties, their responsibilities, and reporting relationships. Although it is likely that none of the trade contractors or subcontractors have been selected, information regarding selection criteria, including contract requirements regarding the trade contractor's selection of subcontractors should be included.

Party	Type of Information
Owner	Organization Chart identifying project contacts Résumés for Project Director and Safety Personnel Financial Information (private sector owners)
Project Manager	Description of the Firm Experience Responsibilities Resume of Key Personnel Copy of Contract
Construction Manager or General Contractor	Description of the Firm Experience Responsibilities Résumés of Key Personnel Safety Program Copy of Contract
Architect of Record	Description of Firm Experience Responsibilities – During Construction Copy of Contract
Prime Contractors (if identified)	Description of the Firm Experience Responsibilities Résumés of Key Personnel Safety Program Copy of Contract

Q. Summary

Generally, the underwriting submission should include information that serves to elevate the project to a "superior risk" status. This could include information about the Workers' Compensation jurisdiction, the project safety program and the commitment to safety. Increasingly, site security and building or work methodology (experimental or new technologies) are viewed as important considerations. In addition to the project specific data, a description of the key parties, their qualifications and responsibilities are important components of the project information used in the underwriting process. All of these factors influence the underwriter's assessment of the project, and ultimately the cost.

X. Insurance Carriers

A. Insurance Carriers

Insurance companies fall into a number of categories or classifications. Wrap-ups may use the services of various segments or categories of the insurance market. The following chart identifies the type of markets used for various coverages:

Coverage	Type of Insurer	Comment
Basic Wrap-up: 1. Workers' Compensation 2. Commercial General Liability 3. Excess Liability 4. Builder's risk	• Admitted (licensed) Insurance Company, providing primary coverage	1. Required to write Workers' Compensation in all states except Louisiana 2. Primary carriers have the service infrastructure to offer necessary audit, safety and claims services
1. Stand-Alone General Liability 2. Airport Construction Liability Policy 3. Excess Liability 4. Pollution Liability 5. Professional Liability 6. Builder's risk	• Admitted Carrier • Non-Admitted Carrier approved for Surplus Lines Use • Alien or Foreign Carrier such as Lloyd's of London Syndicates	1. Limited administration is required – a single policy is issued for the project (except Texas, which requires a separate GL policy for each contractor 2. Non-Admitted Carriers that are approved Excess and Surplus Lines markets may offer more competitive terms and conditions because they are not subject to certain state regulations requiring approval of rates and forms. These carriers require an additional charge for surplus lines tax and in the event of carrier insolvency, the state guarantee funds do not apply. (Admitted carriers include the state tax within the premium, which is deposited into the state fund.) 3. Lloyd's and other international markets are used on airport and other unusual risks or capacity needs. Tax and insolvency issues are the same as in item #2

B. Ratings

The first consideration in choosing a wrap-up insurance carrier should be the financial strength of the company. There are a number of organizations that rate companies financial strength, management, and claims paying ability including:

1) A.M. Best
2) Stand & Poor's
3) Moody's
4) Federal Treasury List

Many owners and brokers have minimum standards for insurers, requiring an AM Best Rating of A- VI or above (and the equivalent for Lloyd's of London syndicates).

C. Insurer Response Evaluation—Evaluating insurer responses should be based on a methodology that compares insurance company offers and determining the best value (combination of coverage, of service and cost). It is the broker's responsibility to assist the owner in establishing criteria for evaluation and selection as well as performing the necessary analysis and comparison of costs, cash flow, coverage, services and other relevant program components.

D. Evaluation Criteria: Some owners identify specific criteria and the relative weighting of those criteria. Publicizing the criteria may lock in a choice without consideration for other factors or without the flexibility to address changing priorities. Whether included in the Underwriting Submission, or used and published after the fact, the criteria should measure the responsiveness to the owner's objectives. It is clear that the choice cannot be based solely on cost.

E. Written Proposal — Non-Cost Criteria

1) Financial Rating
2) Wrap-up Experience – number written within past five years, number currently insured
3) References
4) Response to Coverage Specifications
5) Response to Service Specifications
6) Objective and Subjective Assessment of the proposed team's experience, workload and service plan

F. Evaluation Forms — Forms should be designed by the broker (or owner's standard form should be adapted) and submitted to the owner for review and approval. In addition to addressing the summary categories of the evaluation, detailed analysis of all program components is performed by the broker.

Criteria or Component	Carrier's Response: Agreed – Meets Requirement Exceeds – Specify Alternative – See Comments Not Responsive	Weighting: Importance	Points: Can be one-to-five ranking or more detailed	Comments Explanatory Information

The evaluation would total the weighted points – this preliminary evaluation would be discussed and reviewed with the Owner's Selection Committee and subject to finalization.

Some owner's identify certain criteria as eliminators – regardless of how the rest of the program points. Common eliminators include:

1) Financial rating below a specific rating
2) A specific coverage issue (for example, an attempt to exclude injury or illness resulting from exposure to radioactive material when quoting a wrap-up for a Nuclear Power Plant)
3) Unwillingness to provide full-time on-site safety personnel (if requested)
4) Unwillingness to consult or seek authority for settlement of losses over a certain dollar amount

G. Written Proposal — Program Cost

The program cost is the total premium, including losses and other related charges. Each program may contain some or all of the same components or charges. Deductibles and aggregate retentions (the maximum amount of losses that may be charged to the program regardless of actual loss experience) can vary. Because the programs are being evaluated prior to the project inception, the cost of each program at various loss levels up to the maximum cost is compared. The evaluation focuses on the cost of the program at the projected loss level and the maximum cost of the program. The following are typical cost comparison evaluation worksheets:

In addition to a summary of the key components (based on the owner's objectives, issues and concerns), the following worksheets are representative of the detail review:

SUMMARY - KEY COMPONENTS			
COMPONENT	Carrier 1	Carrier 2	Carrier 3
Loss Limit/Ded	250,000	250,000	225,000
Hard Dollars	377,486	593,618	537,940
Cost of Losses- %	7.00%	7.00%	7.00%
Cost at Expected	107,250	82,250	80,500
Per Loss Cost Cap	No	No	7,000
Cost at Expected	1,659,736	1,850,868	1,768,440
Maximum Cost	2,516,769	2,750,143	2,656,755
Cost of Managed Care	25% of Savings	??% of Savings	18% of Savings
Buy-Out Option	No	Yes	No
Other Enhancements or			
Restrictions			

1) Expenses: the costs for risk transfer (insurance), carrier services and other non-variable charges (not directly related to losses). These costs developed either as a percentage of workers' compensation premium (using bureau-published rates for each category of payroll) or more typically as a composite rate based on total project payroll. The "premium" is estimated at program inception based on estimated payrolls and adjusted based on the actual audited payroll.

2) Cost of Losses: the charge for adjusting and administering claim payments. This is a variable cost directly related to either the value of the loss (charged on a percent basis) or the number of losses (charged on a per claim basis). In addition to the loss adjustment costs, the carrier also provides cost containment or managed care services designed to reduce medical provider charges. This cost is developed as a percentage of the medical fee savings.

3) Minimum and Maximum Costs: The minimum charge is the cost of the program at zero losses and is typically equal to the Program Expenses (see #1). The maximum is a worst case scenario – and represents the program cost using the highest amount of losses allowable based on the pre-determined cap (aggregate or maximum).

4) Payment Terms: the method for payment of expenses, reimbursement of actual losses and collateral or security requirements where certain payments or costs are deferred. These deferred amounts are generally related to loss reimbursement where the reserve amount (for payments to be made in the future) is not required to be reimbursed until actual payment is made. The liability associated with the reserve is secured by collateral (usually a letter of credit or surety bond) in lieu of premium payment.

5) Program Cost at Various Loss Levels: The projected cost of each program, based on adjusting the variable costs to reflect multiple scenarios.

H. Oral Presentation – The second part of the carrier selection process is the oral presentation. Carriers are invited to discuss their services, introduce the service team and respond to questions from the selection committee members.

I. Format — This portion of the selection process usually carries less weight – up to twenty-five percent (25%) of the total points. Most owners' do not invite all offerors. The results of the written evaluation are used to narrow the potential options. Many owners prefer that only the top three carriers participate. The broker may recommend expanding this list if the written evaluations produce very close results or if the offers present unique components. The participants are invited to make a presentation with specific time limits. Most owners identify the topics to be addressed and may incorporate specific questions in the invitation. Among the topics included:

1) Introduction of the Service Team
2) Explanation of how the carrier can assure effective implementation
3) Discussion of the carrier's risk control service and highlight success stories on other wrap-ups
4) Presentation of why the carrier's representatives think their company should be chosen
5) Demonstration or explanation of the carrier's data management system and the information available to track project participants, losses and loss trends

J. Carrier Representatives: All key members of the actual service team or their supervisors should be present and required to participate. Appropriate representatives include:

1) Underwriter
2) Underwriting manager (optional)
3) Safety representative
4) Claims representative(s)
5) Information system representative

K. Owner Representatives – The oral presentations offer the opportunity to assess the personnel that will become integal and important members of the team. The owner should include staff members who will have direct interaction with the project team or provide specific information needs.

1) Senior contact person with decision-making authority
2) General council or a member of that staff
3) Contract compliance officer
4) Staff safety officer
5) In-house project manager
6) In-house safety officer (if applicable)
7) Project Construction Manager's project supervisor and safety manager

Where Project or Construction Management staff members are included as part of the evaluation team, it is typical to accept their evaluation form for information purposes only. Their inclusion is to assure that no barriers are identified that would disrupt a working relationship.

Broker personnel also should be present, however their role is to act as non-voting technical advisors to the group. The broker can direct questions to the carrier during the presentation and assist the selection committee by providing explanatory information during the subsequent debriefing.

L. Evaluation Criteria: The criteria may be more subjective during the oral presentations and can be done on a point basis or pass/fail for each topic.

M. Binding — Based on the results of the evaluations, a carrier is selected. At this point the broker and owner may engage in best-and-final discussions in an attempt to improve particular components of the offer. The broker is then instructed by the owner to bind coverage. The binder is a legal document that summarizes all elements of the offer including coverage, costs and proposed services. It is a temporary document that is replaced by the actual policies, payment and service agreements. The broker prepares the binder and submits it to the carrier who must sign the document as the Authorized Representative.

Payments—Payment of various components are subject to different time schedules as follows:

Component	Timing	Adjustment	Comment
Premiums			
Workers' Comp. And General Liability 1. Expenses 2. Specific State Surcharges or other assessments 3. Escrow or Loss Reserve Fund (Negotiable: generally equal to two months' paid losses. Example: If loss estimated at \$3.6 million for project: Year 1 estimate = \$1.2 Est. Paid 30% = \$360K Two Months = \$60K 4. Letter of Credit 5. Monthly Paid Losses 6. Claims Handling Costs	Equal Monthly Installments based on estimated costs Option: Monthly based on actual reported payroll At inception At inception Due within 30 days of inception Due five days after the close of the month Billed monthly	Annually using actual audited payroll Annual – random audit check of voluntary reports In some cases depending on the state Refunded at close of program Can be readjusted monthly, quarterly or annually depending on project size	Can be paid at inception, annually, quarterly or semi-annually. Modest premium reductions are offered for accelerated payment. Very minor cost Escrow fund is used to pay losses during the first two months of the program. Subsequent paid losses are reimbursed by monthly billing. The fund usually is equal to two months' estimated paid losses. A project cost of \$500 million with a three year duration might require an escrow of \$75,000
Builder's Risk	Annual, monthly or quarterly	Yes – based on completed values	
Excess Liability	Annually	Negotiable – may be "flat" charge or adjusted on project hard costs or payroll	Markets may require accelerated payment depending on duration (excess of three years) and current market conditions
Professional Liability and Pollution Liability	Annually	Negotiable – may be "flat" charge or adjusted on project professional fees	Markets may require accelerated payment depending on duration (excess of three years) and current market conditions
Broker Fees	Monthly – generally initial payment is front loaded to address work performed in securing and implementing program	If service contract contains provisions for adjustment based on changing project conditions	

N. Self-Insurance Reserve Fund

The purpose of the reserve fund is to assure that financial resources are in place to pay the cost of insurance deductibles and other self-insured coverage.

Some examples of the types of exposures that carry deductibles to be paid by the reserve fund include the following:

1) Fire and other direct damage perils to buildings and contents
2) General Liability
3) Automobile liability

Examples of exposure that would be paid entirely from the reserve fund:

1) Theft of money and securities
2) Automobile collision damage

Examples of exposure that might not be subject to reimbursement from the fund:

1) Mechanical breakdown of equipment
2) Mysterious disappearance of property and inventory
3) Obsolescence

An independent auditor should monitor the operation of the fund continually. Such monitoring and evaluation of the fund and the exposure to loss to which it is subject is an essential part of any insurance process. Adjusting deductible levels, increasing safety and loss control efforts, and amending insurance coverage's are a few of the techniques available in managing the fund.

Revenues to the reserve fund are budgeted each year to replenish those amounts expended on actuarial losses as well as to allow for the continued growth and actuarial soundness of the fund.

Sample Oral Presentation Evaluation Form

Criteria	Pass/Fail	Points			
		Not Responsive	Meets Requirements	Exceeds Requirements	Comments
	Acceptable	0 - 2	3	4-5	
Experience					
Coordination					
Understanding of Role					
Safety Services					
Information System					

Multiple Carrier Evaluation Forms

	Carrier 1	Carrier 2	Carrier 3
Cost of Losses			
Tax Rate	Not Applicable	Not Applicable	Not Applicable
LCF Rate	0.070	0.070	0.070
LCF Cost Capped	No	No	7,000
Cost of losses	**7.00%**	**7.00%**	**7.00%**
Expected Losses			
Workers' Compensation	1,000,000	1,000,000	1,000,000
General Liablity	200,000	200,000	200,000
Total Expected Losses	1,200,000	1,200,000	1,200,000
Adjusted Expected Losses	1,175,000	1,175,000	1,150,000
Loss Adjustment	82,250	82,250	80,500
Excess of Ded Charge	25,000	Not Applicable	Not Applicable
Tax on Loss Costs	Not Applicable	Not Applicable	Not Applicable
Total-Losses & Costs	**1,282,250**	**1,257,250**	**1,230,500**
Cost at Expected	**1,659,736**	**1,850,868**	**1,768,440**

Plus Allocated Expense (Legal, Investigation, Managed Care etc.) x LCF subject to Deductibles (Occurence and Aggregate) & LCF Cap, if applicable

	Carrier 1	Carrier 2	Carrier 3
Managed Care (ALAE)			
Fee Schedule	25% of Savings	30% of Savings for	18% of Savings
Usual & Customary	25% of Savings	Medical Bill Review	18% of Savings
PPN: In-Source	25% of Savings	(Estimated)	15% of Savings
PPN: Out-Source	25% of Savings		20-25% of Savings
Case Mgt etc.	\$60 - \$75+ per Hour		\$85 per hour(tenths)
Peer Review	\$100 - \$175+ per Hour		\$125 -\$175 Per Hour
Cost-\$100,000 Savings	**25,000**	**30,000**	**18,000**
Cost @ Expected incl. Mgd Care Cost Est.	**1,684,736**	**1,880,868**	**1,786,440**

		Duration	**4 Years**
		Project Cost	**$310,000,000**
		Payroll	**$51,041,994**
	Carrier 1	**Carrier 2**	**Carrier 3**
Program	Large Deductible	Large Deductible	Large Deductible
Standard Premium	Not Applicable	Not Applicable	Not Applicable
Loss Limit/Deductible			
Workers' Compensation	250,000	250,000	225,000
General Liability	250,000	250,000	225,000
Clash Cover	250,000		225,000
Allocated Expense	Included	Included	Included
Expenses			
Basic/Ded-WC Rate	0.46730	0.723	0.566
Basic/Ded-WC Premium	238,519	369,034	288,898
Basic/Ded-GL Rate	0.27226	0.440	0.292
Basic/Ded-GL Premium	138,967	224,585	149,043
Basic /Ded Premium	377,486	593,618	437,940
WC ELP Factor	Not Applicable	Included	Agg Ded Factor:
ELP	Not Applicable	Included	0.121
Fixed/Admin Cost	Included	Included	Included
Sub-Total	**377,486**	**593,618**	**437,940**
Tax on Expenses	Included	Included	Not Applicable
Expense Constant	Waived	Waived	Waived
Loss Control	Included	Included	100,000
Visits/Hours	Not Limited	725 Hours	790 Hours
RMIS	Included	Included	Included
Assess./RML Rate	Included	Included	Included
GL Excess (Non Subject)	Included	Included	Included
Total Expenses	**377,486**	**593,618**	**537,940**

Minimums & Maximums	Carrier 1	Carrier 2	Carrier 3
Minimum - Formula	WC & GL Ded Rate x Payroll	WC & GI Ded Rate x Payroll	WC & GI Ded & Agg Rate x Payroll + Loss Control
Minimum Cost	**377,486**	**593,618**	**537,940**
	Carrier 1	**Carrier 2**	**Carrier 3**
Maximum - Formula	Rate x Payroll = Aggregate Loss Content x LCF + Expense + ELP	Maximum Rate x Payroll	Rate x Payroll = Aggregate Loss Content x LCF + Ded. Premium + Agg. Premium + LC
Maximum %	Not Applicable	Not Applicable	Not Applicable
Retro Maximum	Not Applicable	Not Applicable	Not Applicable
Expenses + Other Charges	377,486	Included	537,940
Maximum Rate	3.77	5.388	3.918
Maximum Premium	Not Applicable		Agg is Minimum
Maximum Loss Provision	1,924,283	2,750,143	1,999,825
LCF	134,700	Not Applicable	118,990
Tax on Adj Cost	None	Not Applicable	Not Applicable
ELP Swing Cost	80,300	Not Applicable	Not Applicable
			Maximum LCF Cost Adjusted to reflect probable cap impact
Total Maximum Cost	**2,516,769**	**2,750,143**	**2,656,755**
Loss Content	1,924,283	2,015,443	1,999,825

	Carrier 1	Carrier 2	Carrier 3
Payment Terms	Deductible Premium + Expected Losses x LCF.	Deductible Premium + Expected Losses + LCF x Expected Losses	Deductible Premium + LCF x (Zurich)Expected Losses + Agg Premium + Loss Control
Payable	4 Annual Installment	4 Annual Installment	4 Annual Installments
Installment Amount			
Escrow	Not Applicable	Not Applicable	Not Applicable
LOC - Year 1	Not Applicable - Pre-Funded	Not Applicable - Pre-Funded	Not Applicable - Pre-Funded

Wrap-up Responsibilities

Each of the parties to a wrap-up has responsibilities during program procurement, implementation and for the duration of the project are identified on the following tables.

Task	**Due**	**Broker**	**Owner**	**CM**	**Carrier**	**Subs**
Marketing through Implementation						
BOR		X	X			
Statement of Services		X				
Estimated Timeline		X				
Contract Review 1. CM 2. A&E 3. Trade Subcontracts 4. Other		X	To provide contracts (drafts)			
Wrap-Up Enabling Wording		X				
Evaluation/Agreement on CM Safety Responsibilities		X	X	X		
Review of CM Site Safety Plan		X				
Development of Project Safety Responsibilities		X	X	X		
Carrier Safety Specifications		X				
Carrier Claims Handling Requirements		X	X	X		
Development of Underwriting Data 1. Identification of info needed 2. Program Submission		X	Provide Info Approval	X		
Project Safety Manual		X	Approval	X		
Project Claims Manual		X	Approval	X		
Project Admin Manual		X	Approval			
Pre-Bid Instruction Handout		X	Approval	X		
Carrier Site Visits		X	All	X		
Meetings with Underwriters		X	Limited basis			
Program Negotiation		X				
Analysis & Review of Proposals		X				
Service Presentations – Finalists		X	X	X	x	

Task	Due	Broker	Owner	CM	Carrier	Subs
Best and Final Negotiations		X	X			
Bind Coverage – Documentation		X				
Finalize and Customize all Manuals		X			x	
Kick Off Meeting			All	x	x	
Contractor Management						
Attend Pre-Bid Meetings		X				
Evaluate/Verify Bid Deductions		X				
Notice of Award/subcontract		X		X		X
Provide Enrollment Package		X				X
Process Enrollment		X				X
Documentation to Sub-Contractor		X				
Data Carrier		X				
Enter Data in System		X				
Issue Policy					X	
Issue CGL Certificate		X				
Check Policy		X				
Provide Monthly Payroll Info				x		x
Review and Process Payroll Data		X				
Issue Late Report – Payroll		X				
Pursue Delinquent Contractors		X		X		
Notice of Substantial Completion				x		x
Re-evaluate/Finalize Deduct based on actual payroll and contractor insurance costs		X		X		X
Adjust Deduct		X		X		
Notify Carrier		X				
Notice of Wrap-Up Coverage termination		X				
Final Payroll Audit or Report		X			X	x
Enrollment Support		X				
Contractor inquiries/assistance		X				
Annual "Renewal" Process						

Task	Due	Broker	Owner	CM	Carrier	Subs
Letters to Contractors		X				
Updated Listing of Continuing Contractors		X				
Order and Process Policies and Certificates of Insurance		X		X	X	X
Program Management Reports						
Contractor Directory/Hierarchy		X				
Enrollment Status		X				
Payroll Report		X				
Ongoing Savings Report		X				
Claims Management						
Carrier Claims Handling Requirements		X	X	x		
Project Claims Manual		X	Approval	x		
Evaluate Carrier Responses		X				
Implementation of Procedures		X		x	x	
WC 1-800- Reporting						x
Monthly Review/Analysis of Losses		X	x	x	x	
Develop Disaster Planning – include in Manual		X	X	X		
Advocate on coverage issues		X				
Quality Control/Assurance		X				
Annual Reserve Analysis		X				
Accident Investigation - serious losses		X	X	x	x	
Risk Control - Safety						
Evaluation/Agreement on CM Safety Responsibilities		X	X	x		
Review of CM Site Safety Plan		X				
Development of Project Safety Responsibilities		X	X	x		
Carrier Safety Specifications		X				

Task	Due	Broker	Owner	CM	Carrier	Subs
Project Safety Manual		X	Approval	x		
Set up Safety Committee		X		x	x	
Participate – Safety Committee		X				
Accident Trend Analysis		X				
Review Sub's Safety Programs				X		
Develop Safety Orientation – checklist/signoff		X		X		
Carrier Quality Assurance		X				
Program Quality & Effectiveness Assurance		X				
Compliance Review		X				

Wrap-Up Implementation Schedule

Date Critical = **Due Date =** **Completed =** **Task**	**Due**			11/11	11/14	11/21	11/28	12/05	12/10	12/15	12/20	01/03	01/10	01/15	01/20	02/01
Marketing through Implementation																
BOR																
Statement of Services																
Estimated Timeline																
Contract Review 5. Construction Manager 6. A&E 7. Trade Subcontracts 8. Other																
Wrap-Up Enabling Wording																
Evaluation/Agreement on CM Safety Responsibilities																
Review of CM Site Safety Plan																
Development of Project Safety Responsibilities																
Carrier Safety Specifications																
Carrier Claims Handling Requirements																
Development of Underwriting Data 3. Identification of info needed 4. Program Submission																
Project Safety Manual																
Project Claims Manual																
Project Admin Manual																
Pre-Bid Instruction Handout																
Carrier Site Visits																
Meetings with Underwriters																
Program Negotiation																

Date Critical =
Due Date =
Completed =

Task	**Due**			11/11	11/14	11/21	11/28	12/05	12/10	12/15	12/20	01/03	01/10	01/15	01/20	02/01
Analysis & Review of Proposals																
Service Presentations – Finalists																
Best and Final Negotiations																
Bind Coverage – Documentation																
Finalize and Customize all Manuals																
Kick Off Meeting																
<u>Contractor Management</u>																
Attend Pre-Bid Meetings																
Evaluate/Verify Bid Deductions																
Notice of Award/subcontract																
Provide Enrollment Package																
Process Enrollment																
Documentation to Sub-Contractor																
Data Carrier																
Enter Data in System																
Issue Policy																
Issue CGL Certificate																
Check Policy																
Provide Monthly Payroll Info																
Review and Process Payroll Data																
Issue Late Report – Payroll																
Pursue Delinquent Contractors																
Notice of Substantial Completion																
Re-evaluate/Finalize Deduct based on actual payroll and contractor insurance costs																
Adjust Deduct																
Notify Carrier																
Notice of Wrap-Up Coverage termination																

Date Critical = **Due Date =** **Completed =** **Task**	**Due**			11/11	11/14	11/21	11/28	12/05	12/10	12/15	12/20	01/03	01/10	01/15	01/20	02/01
Final Payroll Audit or Report																
Enrollment Support																
Contractor inquiries/assistance																
Annual "Renewal" Process																
Letters to Contractors																
Updated Listing of Continuing Contractors																
Order and Process Policies & Certs																
Program Management Reports																
Contractor Directory/Hierarchy																
Enrollment Status																
Payroll Report																
Ongoing Savings Report																
Claims Management																
Carrier Claims Handling Requirements																
Project Claims Manual																
Evaluate Carrier Responses																
Implementation of Procedures																
WC 1-800- Reporting																
Monthly Review/Analysis of Losses																
Develop Disaster Planning – include in Manual																
Advocate on coverage issues																
Quality Control/Assurance																
Annual Reserve Analysis																
Accident Investigation - serious losses																

Date Critical =
Due Date =
Completed =

Task	**Due**			11/11	11/14	11/21	11/28	12/05	12/10	12/15	12/20	01/03	01/10	01/15	01/20	02/01
Risk Control - Safety																
Evaluation/Agreement on BOVIS Safety Responsibilities																
Review of CM Site Safety Plan																
Development of Project Safety Responsibilities																
Carrier Safety Specifications																
Project Safety Manual																
Set up Safety Committee																
Participate – Safety Committee																
Accident Trend Analysis																
Review Sub's Safety Programs																
Develop Safety Orientation – checklist/signoff																
Carrier Quality Assurance																
Program Quality & Effectiveness Assurance																
Compliance Review																

XII. SAFETY

To realize the potential benefits of a wrap-up program, the implementation and administration of a comprehensive safety program is required. Therefore, all concerned, especially the owner, must establish firm written guidelines and requirements defining management's goals and lines of responsibility for safety activities. Problems can result from safety recommendations based on vague or non-existent Occupational Safety and Health Act and other applicable standards – if vague, mandatory compliance creates cost claims – if non-existent, resistance to compliance with safety recommendations results in the hazard going unabated. Whenever possible, safety requirements are made a contractual obligation.

A. Safety Manual

A safety manual should be developed containing the procedures and requirements necessary for the implementation and administration of the owner's safety program, including the responsibilities of all persons directly responsible for the safety and welfare of employees, protection of the general public and protection of property. Contractor compliance with the requirements of this manual is mandatory by making it a part of the contract documents.

B. Safety Meetings

A periodic safety meeting should be held (monthly, bi-monthly) for all contractors' safety superintendents. owner's field management staff, and other interested project personnel involved in safety. These programs would address safety-related subjects of general interest to the audience. Also at these meeting safety awards can be made to any contractors who have achieved the required number of hours worked without a lost time injury. These meetings develop safety consciousness and provide an opportunity for safety and management personnel to discuss mutual safety problems and solutions.

A meeting should be held with each new prime contractor at the beginning of each project to review with project management the requirements of the owner's safety program as outlined in the safety manual and the wrap-up insurance program coverages with emphasis on safety requirements. Attendance at these meetings should include the prime contractor's project manager and safety superintendent, the owner's field staff manager, representatives of the insurance carrier(s) and the Safety Committee. All parties involved in the program – contractor, owner and insurer – need to be dedicated to the successful completion of the construction project in order to implement and administer a strong safety program throughout the life of the project.

C. Incentive Programs

Better compliance with safety requirements is attained by the owner through the use of some kind of an incentive program for the prime contractor. A program with reward and penalty features can provide an incentive for the contractors to be more safety conscious, which will be reflected in a reduced incidence of workers' compensations claims (and claims expense) on contracts under the wrap-up. In order to reap the benefit of this program, the contractor must develop, implement and administer a strong safety program throughout the life of the construction project. The combination of reward/penalty gets the attention of the contractor's management, which is absolutely essential to maintain a safe job when the contractor does not pay for his own insurance and claims costs. The owner will need to establish procedures for monitoring the incentive program to be sure the contractor is reporting all legitimate lost time cases (or whatever the program is based on). This is best done monthly rather than trying to verify the data at the end of the project when many of the people and records involved have been transferred elsewhere.

D. Coordinated Safety Committee

The purpose of the Coordinated Safety Committee, as its name implies, is to coordinate the efforts of the owner's safety representatives, discuss safety problems, programs and procedures for all construction projects and recommend appropriate action. Members of the committee may include the owner's construction safety engineer, the loss control analyst and the insurer's loss prevention engineer. Activities of a Coordinated Safety Committee may include:

1) Regularly scheduled meetings to discuss the status of work in progress
2) Reviews of safety problems reported or noted during job site inspections
3) Interviews of safety superintendent applicants and recommendations for approval or disapproval of those applicants

4) Written reviews of each contractor’s safety program prior to award of contract

E. Safety-Related Wrap-up Items

1) Dedicated loss prevention staff (owner and insurer) who become very familiar with the insured projects, are experienced in heavy civil construction safety and are accessible at almost any time.

2) Frequent site surveys by loss prevention staff – weekly at a minimum, with on-site review of finds at the time of inspection and including a conference with contractor management and owner’s on-site representative.

3) Inclusion of requirement in contract specifications that prime contractor employ a full-time on site safety representative with construction safety experience.

4) Owner should have a safety manual outlining responsibilities and procedures expected of contractors working on his projects, and this manual should be a part of the contract documents. Site-specific safety programs and the enforcement of them are the contractors’ responsibility but will be reviewed by the safety committee.

5) Owner should develop an incentive program as a means of encouraging the contractor to fully support safety on the project and thereby reduce claims costs.

6) Have pre-construction surveys made by an outside consultant to document condition of structures adjacent to the project right of way.

7) Participation of insurer’s loss prevention representative in a safety committee to be made up of the safety representatives of the owner, the insurer and the owner’s risk management office. The committee will review and evaluate such items as contractors’ proposed safety superintendents, job hazard analyses, inspection recommendations, and related activities.

8) Owner will review contractors’’ safety programs prior to award of contracts. Consistent with owner’s disciplinary plan; will comply with owner’s program if not their own.

9) On-site training assistance for the contractors’ work forces, either in an indoctrination format, in periodic tool box meeting talks by owner’s and insurer’s safety representatives. Insurer should provide a loss run to the owner on a monthly basis and assist in its analysis of loss trends, etc. Some owners make safety programs available on request for fee (nominal).

10) Insurer should provide weekly loss reports to the owner broken down by project, injury type, craft, etc.

11) Participation by insurer’s loss prevention representative(s) in periodic meetings held with all contractors’ safety superintendents and owner project staff.

12) Prime contractor should meet with nearest fire department and advise of job location and nature of work in case of an emergency.

13) Prime contractor’s safety representative should make arrangements with a local clinic and nearest hospital for treatment of injured employees, and advise them of any light duty program available to employees.

14) Owner’s safety and risk management representatives and insurers loss prevention and claims representatives for the project should schedule a safety planning meeting with the prime contractor prior to or soon after start of work to go over with the contractor the safety and insurance requirements of the program.

15) Interview prime contractor’s proposed safety superintendent to be sure he/she has necessary experience/training to handle the specific project.

16) Employ a certified First Aid attendant on the project. This will tend to minimize the loss of time due to minor injuries.

17) Establish an award program an incentive for above-average hours worked with a chargeable lost-time injury.

18) Establish procedures for the verification of payments for builder's risk claims with respect to owner's and contractors' interests.

19) Coordinate claim meetings to resolve claim disputes between contractors, owner and insurer.

20) Establish procedures for reporting third-party liability claims to underwriters.

21) Establish procedures for verification of incentive program.

22) Establish procedures for reporting of subcontractors insured under the wrap-up.

F. Safety Requirements for Contractors — At a *minimum*, contractors of all tiers should be required to meet the following minimum requirements. These requirements should be included in all bid and contract documents:

Each contractor, regardless of tier, must be responsible for ensuring observance of the most stringent provisions of the applicable statutes and regulations of the political subdivision in which the work is being performed and relevant OSHA provisions pertaining to the safe performance of the work. Consequently each contractor must:

1) Ensure that the methods of performing the work do not involve undue danger to personnel, the public and public and private property. Written notice of any violation of these requirements should be given to the contractor and a copy of each charge should be forwarded immediately to the project engineer.

2) Be responsible for ensuring that work associated with handling and disposal of contaminated soils and/or water is performed in accordance with provisions of OSHA 1910.120 "Hazardous Waster Site Operations and Emergency Response (HAZWOPER).

3) Ensure that all members of its work force at each Project site has and wears safety and protective clothing/equipment as required by OSHA and the owner.

4) Furnish and maintain adequate illumination at the site when, by reason of conditions created by the Contractor in constructing fences, barricades, or otherwise, illumination by artificial means becomes necessary in order to protect persons and property.

5) Assign a Safety Superintendent who has specialized training and experience in construction safety supervision and is acceptable to the owner's contracting officer. The safety superintendent may be the project foreman or an employee normally on the site of the work with the added duty of supervising the safety of persons on or about the work and property affected thereby. He shall also be responsible for providing first aid at the site and must have a current Red Cross First Aid Certificate. Once employed, the safety superintendent should not be changed without permission of the owner's contracting officer.

6) Provide fully equipped first ad kits to meet the needs of the anticipated work force at the site.

7) Submit a plan for a temporary fire protection system for use during the term of the contract. This plan should be submitted to and approved by the project engineer before the contractor begins work on any construction activities. The plan should include provisions for fire protection systems and equipment as required by the OSHA Safety and Health Regulations for Constructions, Part 1926, Subpart F - Fire Protection and Prevention.

G. Safety Awareness Program

The objective a wrap-up Safety Awareness Program is to reduce the number of workers' compensation claims and costs. Typically, each contract with a value over $500,000 has a fixed line item amount for the Safety Awareness Program contained in the unit price schedule. The incentive value for each contract is established at some percentage (e.g., 1 percent) of the project engineer's estimated cost of the project. Consequently, this amount will vary from contract to contract but will not exceed the pre-determined amount set by the owner—say $500,000—regardless of the dollar value of the project. Most SAPs also assign each contract a base Lost Workday Incident Rate, which is developed from the project's cumulative construction lost time experience.

How an incidence rate is established for each individual contract, is up to the owner. One way to set that rate is to use each contractor's past experience (hours worked and lost time injuries incurred) for the particular type of construction (e.g., rock or earth tunnels, cut-and-cover, escalators, aerial, automatic train control). When the incidence rate is being established, if it is determined that most of the value of the contract is in equipment, with only minimal field work time required, the project probably should not be included in the SAP. Also, no incidence rate should be so low that there is no incentive for the contractor to comply with the program. For example, one wrap-up SAP requires each participating contractor to have at least 40,000 hours of payroll just to break even with one lost time injury at an incidence rate of 5.0.

When a SAP contractor has reached substantial completion of all contract work at the site, the owner determines if the contractor's workers' compensation incidence rate is below the assigned base incidence rate. For each decimal fraction the incidence rate is reduced below the base rate, up to some predetermined maximum (e.g., two points), the contractor will share in the savings. In some programs, higher than assigned base incidence rates will result in the contractor being *charged* for the additional costs up to the predetermined maximum, for example, $500.

H. Return-to-Work Program

An important component of wrap-up safety is the Return-to-Work Program. Occasionally an employee is injured to the extent that he or she is unable to return to his or her regular job, or has work restrictions prescribed by the treating physician. Modified duty must be provided whenever possible and if a contractor cannot accommodate the injured employee, the contractor should be able to work with the owner and insurer identify appropriate restricted-duty (e.g., limited standing, sitting, squatting, lifting or walking) or light-duty (limited hours and/or duties) work options.

I. On-Site Medical Trailer

One of the newer trends in wrap-up safety is the on-site medical trailer. Such services help hold down lost-time incidents and their associated costs. Among the services that can be provided by on-site medical trailer personnel include:

1) Drug testing
- (a) Pre-employment – in-trailer collection and analysis
- (b) Just-cause – in-trailer collection/outside lab analysis
- (c) Post-accident – in-trailer collection/outside lab analysis
- (d) Random – in trailer administration and analysis

2) Recordkeeping
- (a) First report of injury
- (b) Accident/incident statistics
- (c) OSHA 200 log
- (d) OSHA incidence rate for each contractor
- (e) Lost workday rate for each contractor
- (f) Drug test records

3) Claim management assistance in cooperation with
- (a) Local hospitals
- (b) Toxicology (drug test) laboratory analysis)
- (c) Workers' compensation insurer
- (d) Construction Manager's on-site safety supervisor
- (e) Broker or independent wrap-up administrator
- (f) Owner

4) Return-to-work program management

5) Occupational safety assistance

Actual cost depends on several factors, including

1) The number and duration of on-site work shifts and required medical trailer staff
2) Whether the medical trailer provider contracts with an outside lab
3) Whether the Medical Review Officer (MRO), who will provide review/assessment of positive drug tests, is licensed and experienced

J. Wrap-up Safety Responsibilities

Insurer	Safety Supervisor	Owner
Serves on the Coordinated Safety Committee	Serves on the Coordinated Safety Committee	Serves on the Coordinated Safety Committee
Makes regular site surveys, reviews findings with contractors and the Owner's safety representative and makes written reports covering job visits	Monitors effectiveness of the Project Safety Program	Prepares monthly statistical report of accidents and injuries incurred on the project
Participates in insurance and safety meetings w/new contractors	Serve as chairman of bi-monthly safety meetings for safety superintendents and Metro field staff	Prepare monthly report on status of Safety Awareness Program
Reviews and comments on contractors' safety programs prior to award	Meet w/contractors and union members re matters of safety	Participates in meetings with prime contractor's safety superintendents
Conducts accident investigations	Act as liaison between the Owner, federal and municipal authorities on matters of construction, environmental and occupational health and safety	Coordinates and directs the efforts of the insurer's loss control program
Provides training to contr. personnel	Work with Metrorail to develop and coordinate safe work procedures where construction and rail operations interface	Coordinates and direct the efforts of the Builder's Risk carrier.
Provides contractor w/safety materials	Assist with all matters of construction, environmental and occupational health and safety	Participates in insurance and safety meetings with new prime contractors
Inspects off-site work areas to be covered by wrap-up insurance program	Serve as SAFE's representative at insurance and safety meetings w/new prime contractors	Coordinates pre-construction survey activities
Provides weekly statistical analysis of injuries and liability incidents	Provides special assistance to contractors with unusual or complicated safety problems	Meets with local, sate and/or federal safety officials to keep better informed on safety regulations
Provides monthly report of field activities accident statistics, etc.	Reviews and comments on contractors' safety program prior to award	Reviews and comments on contractor's safety programs prior to award
Participates in interviews of prime contractors' safety superintendents	Assists with writing/reviewing contract specs on matters relating to safety	Participates in interview of prime contractor's safety superintendents
Advises contractors of imminent danger and potential loss situations	Assists Office of Media Relations in Public Relations work regarding safety and disaster planning	Audits contractor's payrolls
		Prepares insurance packages for contractors

XIII. CLAIMS HANDLING

A. Safety Regulations and Controls — Preventing claims, via stringent safety regulations and controls, is the most effective way to control the cost of risk. When a loss does occur, however, the object is to reduce the amount—in terms of cost or severity—of the loss and the time required to return to a pre-loss state. The key elements of wrap-up claim handling include:

1) Inspections — The owner and its insurer's representative should inspect the job site without notice. All contractors must do whatever is reasonable to cooperate with these inspections and should make all reasonable efforts to comply with all recommendations in a timely manner. Contractors also should be advised that the boiler & machinery insurer's inspector has the authority to immediately shut down any insured boiler that poses an immediate danger to persons or property.

2) Security — Contractors should take all necessary precautions for the security of their property. Duplicates of valuable records and frequent backups of electronic data should be stored in off-site locations. Special attention should be paid to areas open to the public if there is a potential for theft or vandalism. In the event of losses contractors should promptly do whatever is reasonable to preserve and protect any salvageable property.

B. Contractor Accountability — All contractors should be required to provide their workers with all necessary training, forms and information necessary for the proper and timely filing of loss reports and claims. Each contractor also must be required to assign a designated employee to review and monitor all claim activity.

C. Workers' Compensation Claims — Workers' Compensation claims are the most frequent type of wrap-up claim. The frequency of these claims makes it essential that all contractors and their employees know what to do and when to do it in relation to workplace injuries. For example:

1) All injuries and accidents should be reported to the site supervisor immediately, regardless of the degree of injury.
2) The appropriate loss reports should be completed within three days of any injury or accident for which medical treatment is required.
3) All contractors must provide sufficient supplies of required loss reporting forms to all project locations.
4) All contractors must be required to maintain all project accident reports for at least three years.

D. Liability Insurance Claims — When a wrap-up includes general liability coverage, that coverage applies to the project premises and operations. The policy is based upon the legal liability of the insured for negligent acts or omissions that cause bodily injury or property damage to third parties(i.e., members of the public). It responds to both judgments that may be rendered against the insured and also may cover defense costs. As with all contracts of insurance, certain terms, conditions and exclusions affect the way the policy responds to a given set of circumstances.

1) Umbrella Liability — If the preceding liability policies have their limits of liability exhausted by a catastrophic claim, an umbrella liability policy provides an additional layer of coverage.

2) Contractor's Equipment Insurance — Contractors may insure their equipment, for example, backhoes, graders, forklifts, dump trucks and other large construction machinery. Only equipment that is scheduled on the owner's property policy is covered for loss against physical damage or theft. This type of equipment is not otherwise insured under the wrap-up. Contractors should be advised to contact their own insurance agent or broker to determine if coverage is needed and what limits.

APPENDIX

Memorandum

U.S. Department
of Transportation
Federal Highway Administration

Subject: **<u>ACTION</u>:** Owner Controlled Insurance Program Policy

Date: October 7, 2002

Dwight A. Horne

FOR

From: King W. Gee
Associate Administrator for Infrastructure

Reply to
Attn. of: HIPA-30

To: Associate Administrators
Directors of Field Services
Division Administrators

This document constitutes the Federal Highway Administration's (FHWA) policy on Wrap-up or Owner Controlled Insurance Programs.

On January 8, 2002, an Interim Owner Controlled Insurance Program (OCIP) Policy was issued by this office. That action was taken in response to a report issued by the Office of the Inspector General (OIG) on the experiences and activities involved with the administration of an OCIP on the Central Artery and Third Harbor Tunnel Project (CA/T) in Boston. In addition, FHWA had contracted with a consultant to have a resource document developed by a team of individuals in the insurance field who had experience with federally funded OCIPs. This resource document is currently in the final stages of preparation and it is expected that it will be released later this year. The NCHRP is presently finalizing its synthesis of best practices developed from reviewing OCIPs used on highway projects. This document should also be released in the fall.

On July 22, 2002, the OIG issued its *Report on Actions Taken by the Federal Highway Administration to Recover Excess Reserves From the Central Artery/Tunnel Project's Owner Controlled Insurance Program,* Report No. IN-2002-095. This report was a follow-up on the report cited above. The actions taken to resolve the recommendations of this report have now been completed with this issuance of the FHWA OCIP Policy. The FHWA has taken its actions in line with the direction given by Congress to more narrowly construct its requirements for the way an OCIP using Federal-aid highway funds will be administered than is the norm for other federally funded insurance programs.

BUCKLE UP AMERICA

Background

Owner Controlled Insurance Programs are an effective way to improve the safety of construction operations and reduce the cost of insurance on large projects. The basic operational features of an OCIP are: (1) the owner purchases insurance coverage (all or some specific elements) to cover all contractors and subcontractors on a project; (2) there is an integrated owner-contractor managed safety program on the project; and (3) claims are processed centrally. Generally, the use of an OCIP can save money on large projects through lower bulk insurance rates, improved safety management processes, and reduced disputes between contractors over who was responsible for a particular loss.

There are many variations in how an OCIP can be set up. For example, the project owner can purchase coverage, self-insure, or devise a program that blends the two. By retaining more of the risk (through self-insurance or higher deductibles) the owner can obtain lower premiums for the coverage actually purchased. When the insurance program contains a significant element of self-insurance (either a direct self-insurance program or a program with large deductibles) the owner is usually required to provide assurance they will have the money to make those long-term payments as they come due. The State Insurance Agency (and the insurance company, when it pays claims and then recovers deductibles from the owner) may require the owner to provide a letter of credit or establish a reserve account to guarantee it will have the resources to meet its obligations.

Policy

Federal-aid funds can be used to participate in OCIPs on Federal-aid projects. The OMB Circular A-87 provides guidance and establishes limits on Federal reimbursement of insurance costs. The FHWA will generally follow the OMB guidance or as specifically stated in the following. Typical costs that may be eligible for Federal-aid funding include:

1. Costs incurred in the preparation of an OCIP plan, including the procurement of consultant services, the establishment of a letter of credit or the establishment of reserve accounts, and the selection of an insurance provider;

2. Premiums for purchased coverage, up to reasonable limits consistent with standard industry practices;

3. Costs incurred because of losses not covered under nominal deductible insurance coverage, and minor losses not covered by insurance, such as spoilage, breakage, and the disappearance of small hand tools, which occur in the ordinary course of operations;

4. Contributions to reserve accounts to pay allowable retained costs (e.g., self-insured losses/losses under deductibles, and associated expenses) provided:

    (a) The reserve account balance does not exceed the actuarially projected value of incurred claims. Incurred insurance claims include claims: (a) submitted and adjudicated but not paid; (b) submitted but not adjudicated; and (c) incurred but not submitted. These amounts should be determined not less than annually by an independent actuary.

(b) For incurred claims that will pay out in future years (e.g., disability), the reserve is limited to the present value of the expected payment. The difference between the present and future value of the payment is made up by the interest earned on the reserve account, thereby reducing the total cost of the program to the owner and the Federal Government.

(c) The reserve account balance is adjusted annually, as necessary, to ensure compliance with this policy.

Costs that will typically not be eligible for Federal-aid funding include:

1. Any costs or reserve amounts for damage to Federal property;

2. Actual losses that could have been covered by permissible insurance (including self-insurance);

3. Future costs (except for the present value of incurred claims as described above);

4. Insurance that protects contractors against losses for the cost of correcting the contractor's own defects in materials or workmanship.

Insurance refunds must be credited against insurance costs in the year the refund is received.

If annual actuarial reviews of reserve accounts disclose excess balances, the Federal share of the excess amount shall be promptly removed from the reserve account(s) and applied to other allowable project costs or returned to the State’s Federal-aid account.

RESOURCES

Links: Insurance News, Information, Periodicals, Construction Resources

Insurance Coverage Explanations and Definitions of Insurance Terms:

- **http://www.coverageglossary.com**
- **http://www.reinsurance.org/abouttheraa/glossary.html**

Carrier Financial Information

- **http://www.ambest.com**
- **Standard & Poor's - Financial Information**
- **Moody's - Financial Information**

Insurer Financial Rating Organizations – Explanatory Data (link to IRMI):

- **http://www.irmi.com/insurer/default.asp?page=understanding.asp**

News and Periodicals

- **NewsRe Reinsurance News Network**
- **Business Insurance**
- **Claims Magazine**
- **Insurance Journal**
- **Insurance Networking**
- **Insurance & Technology**
- **National Underwriter**
- **Risk & Insurance Risk Magazine**
- **Risk Retention Reporter**
- **Risk World**
- **Rough Notes**
- **National Underwriter News**
- **Insurance News**
- **Industry Resources**
- **Insure**
- **Yahoo! Insurance News** |
- **BestDay News**
- **Propertyandcasualty.com**

Insurance Organizations:

- **Insurance Information Institute** |
- **Independent Insurance Agents of America**
- **The National Research Council**
- **http://www.rims.org**
- **http://www.irmi.com**
- **National Association of Insurance Commissioners**
- **State Departments of Insurance.**
- **http://www.dwd.ststa.wi.us/wc/Related_Links/other_states.htm**

http://www.insure.com
National Association of Women Business Owners (NAWBO)

Construction and Safety Related Links
The Blue Book - Construction Industry Links
National Association of Women in Construction (NAWIC)
National Center for Construction Education and Research (NCCER)

Institute for Research in Construction (IRC)
Occupational Safety and Health Administration
Associated General Contractors of America
National Academies.org/TRB (Transportation Research Board)

Safety and Health Regulations for Construction.
OSHA 29 CFR 1926. Linked table of contents and search engine.

Fall Protection in the Construction Industry (Preamble to OSHA Standard).

Electronic Library of Construction "The Electronic Library of Construction Occupational Safety and Health was developed in part by the Center to Protect Workers' Rights (CPWR) and the National Institute for Occupational Safety and Health (NIOSH)."

Construction Safety Council. Hillside, Illinois. Founded in 1989 as non-profit organization dedicated to the advancement of safety and health interests in the field of construction throughout the world. Their mission is: "To reduce the tragic and costly accidents, injuries and illnesses that take the lives of six American construction industry men and women each day."

Project Safety and Health Management, by Jim Lapping. Mr. Lapping's view of what is needed to facilitate safety and health on a construction site; covers general safety-and-health program, site-specific plan, training, monitoring, hazard analysis, and cooperation. Lapping is the former director of safety and health for the Building & Construction Trades Department, AFL-CIO.

Safety Statistics: **http://stats.bls.gov/oshhome.htm**

Safety Power Point Presentations (188 topics) – University of Vermont:
http://siri.uvm.edu/ftp/ppt/powerpt.html

National Safety Council (NSC)
All US State & Local Safety Councils List (affiliated with National Safety Council)

National Safety Management Society (NSMS).

System Safety Society. A non-profit organization of "Professionals Dedicated to the Safety of Systems, Products and Services."

WHAT IS A SAFETY PROFESSIONAL? See thorough answers by the American Society of Safety Engineers to such questions as: What is a Safety Career All About? Scope of a Safety Professional. Function of a Safety Professional. Code of Professional Conduct.

Gateway to safety and health information resources:
http://www.osh.net

Health and Safety Executive statistics
Statistics from HSE showing numbers and trends relating to occupational illness accidents and dangerous occurrences at work and enforcement actions.

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