



Construction and Development Wrap-Up Insurance Plans

by Amy J. Borman

What is an Owner Controlled Insurance Plan?

An Owner Controlled Insurance Plan (OCIP) is a type of wrap-up insurance program. A wrap-up insurance program is an insurance program that bundles more than one insured contractor or sub-contractor into a single program. Here, an OCIP bundles a construction project owner, the general contractor and all the sub-contractors into one insurance program.

Who is included in the OCIP?

An OCIP covers the project owner, all contractors and all the sub-contractors performing work at the jobsite. The jobsite typically is defined to include the construction site, storage areas, lay down yards and on-site fabrication. In limited situations, a contractor or subcontractor may be excluded. Specifically, if (1) the contractor or subcontractor performs the majority of his or her work away from the worksite or (2) the contractor or subcontractor's contract falls below a certain financial threshold. This threshold is typically between \$25,000 and \$50,000 depending upon the construction job.

About the photo: Flag flying over Hancock County Courthouse.

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What is included in the OCIP?

Most OCIPs include the following insurance coverage: workers' compensation, employer's liability, commercial general liability and excess liability. Often, an owner has the option of adding additional coverage such as professional or environmental insurance liability.

Note: typically, an OCIP covers only on-site work. This means that a standard OCIP will not cover work off-site, transportation or post-completion on-site work. Often, a contractor or sub-contractor will have to provide proof of insurance for any non-covered activity.

Is an OCIP an indemnity replacement?

No, an OCIP does not replace an owner's need to include a contractual indemnity clause. Regardless of whether an owner has a OCIP, he or she should still include a broad indemnity clause in the contract.

How does an OCIP affect an owner?

Benefits for the owner:

Better protection: An OCIP can provide increased coverage limits. Typically, a contractor or sub-contractor's liability coverage is at most \$1 to \$2 million range. OCIP liability limits may be \$5 million for primary coverage or more with excess coverage.

Under traditional insurance plans, the contractor is in control of the plan which can make it difficult for the owner to ensure that minimum insurance liabilities are met. Under an OCIP, the owner is in control and can ensure that these minimum insurance liabilities are met.


Lower costs: Bundling insurance results in lower overall premium costs and it eliminates contractors marking-up their insurance costs in the bidding process.

Under traditional insurance plans, any insurance claim is likely to involve several different insurers each with different attorneys. Under an OCIP plan, costs are reduced because claims typically involve only the one OCIP insurer.

Improved quality of risk management: An OCIP focuses on centralized management. An OCIP administrator is assigned to the project and is responsible for overseeing safety and loss control. This can result in cost savings because the administrator's presence will increase both safety and loss control and will result in the efficient handling of claims.

Efficiency: Under an OCIP, an owner is no longer required to obtain insurance certificates from contractors prior to starting work on a project, a process that can delay a project.

Insurer Stability: Without an OCIP, each contractor is required to secure his or her own insurance. This means that on large project with several contractors and sub-contractors there could be several different



insurance companies involved – some of whom may not be solvent by completion of the project. Under an OCIP, the owner is in control. He or she picks the insurer and can continually monitor its financial solvency.

Disadvantages for the owner:

Management of contractors with insurance related claims: Under an OCIP, a contractor may refuse to repair work if that contractor is waiting for a damage work insurance claim to be settled by the OCIP administrator. It may be difficult for the owner to enforce the contractor's contractual obligations to repair the work when the contractor is waiting on the OCIP Administrator. The owner's contract should address this issue.

Insurance premiums shift to owner: Under an OCIP, the owner has the burden of paying the insurance premiums. This means that the owner has a risk of premium increases if the labor costs and losses exceed the project estimates. However, this could also be a benefit in that the owner will receive premium rebates if the overall claims field were less than expected.

Discourage bidders: Some contractors may be hesitant to bid on the project because they are unfamiliar with OCIPs. Educating contractors at pre-bid meetings is important.

How are contractors and sub-contractors affected?

Disadvantages for contractors and sub-contractors:

Gaps in coverage: An OCIP will provide liability coverage until completion of the project and then for a certain period after completion, typically two to five years. A contractor's liability may extend beyond this time frame. This means that a contractor may have to purchase his or her own general liability policy to provide coverage beyond the OCIP period.

Difficult bidding: Contractors typically bid with insurance costs built into the estimate. OCIP bids usually require contractors to not only remove the insurance costs from the bid but also to demonstrate how these insurance costs were removed. This can be time intensive and difficult for the contractor.

Administrative burdens: Under an OCIP, contractors are left uncompensated for administrative claims. This is in part because an OCIP requires more documentation and reports than traditional projects and the contractor is not allowed to markup insurance costs to cover the time spent doing these administrative tasks.

OCIPs benefits for contractors and sub-contractors:

Greater coverage: If the OCIP includes excess or umbrella coverage, the contractor may receive more coverage than he or she would under his own policy.

Provide new employment options: Traditionally, it is difficult for contractors and sub-contractors to receive liability insurance to take work in multi-family residential structures due to lawsuits associated with those claims. An OCIP would allow contractors and sub-contractors to receive insurance to do these projects.

Safety programs: OCIPs result in the standardization of safety procedures and the implementation of safety programs. This can be a significant advantage to contractors and their employees.

Risk history: Aggregate OCIP claims are not counted against a contractor's own aggregate limit history.

Contractor Controlled Insurance Programs (CCIPS)

CCIPs are essentially the same as an OCIP with the exception of who controls the insurance. In an OCIP the project owner controls the insurance program, but in a CCIP, the general contractor controls the insurance program. Currently, CCIPs are typically only used by large contractors.

One notable difference between an CCIP and an OCIP is that CCIPs tend to include items that fall into the OCIP coverage gap. For example, a typical CCIP includes transportation coverage to and from the worksite.



Amy J. Borman is a member of the Firm and located primarily in our Columbus office. She has significant experience in advising clients on compliance with emerging legislative and statutory issues in the areas of education and business law. To contact Ms. Borman regarding this, or other construction issues, please call 614-564-1445.

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