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Insurance Policies in the Construction Industry

Introduction

The construction industry is among the most dangerous and volatile industries in the world. If a major player on a construction project is not intensely focused on jobsite safety and properly insured, the results could be devastating for the project and potentially the company. In the case of injuries and unforeseen circumstances, effective insurance policies are needed. One such type of insurance policy which has gained popularity over the past few years is the wrap-up policy, specifically an Owner Controlled Insurance Policy (OCIP) and a Contractor Controlled Insurance Policy (CCIP). These wrap-up insurance policies provide a potential for owners or general contractors to save money on the project by purchasing the insurance for all the subcontractors at a reduced rate and also by eliminating mark-ups from subcontractors that have their own coverage. A CCIP is utilized on the Memorial Hospital Miramar in lieu of the traditional type of insurance coverage offered by each sub-contractor. The main factor to a successful CCIP policy is jobsite safety. Centex Construction conducted daily orientation safety meetings for all personnel new to the jobsite. If a worker did not go through orientation, they would not be allowed to work on site. Centex also utilized an on-site safety coordinator that was there 3 days a week. This helped to ensure the jobsite was a safe one.

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Problems

Despite the potential to make money from the CCIP, there can be complications when trying to initiate this type of insurance. Additional costs are often associated with this type of insurance including additional accounting efforts, monitoring efforts to ensure claims from subcontractor's employees injured on other jobs are not charged to the OCIP/CCIP, and increased responsibilities for the implementation of safety programs. The use of OCIP/CCIP tends to make the subcontractors more relaxed on safety issues, which makes the jobsite potentially more dangerous as well as increasing the responsibility of the on-site safety coordinator. Other problems that may arise through the implementation of a CCIP are:

- Difficulty getting subcontractors to agree with the wrap-up policies due to unfair bid deduct calculations
- Subcontractor unfamiliarity of the programs
- Loss of mark-up on insurance costs to the subcontractor

The safety precautions implemented at the Memorial Hospital Miramar were successful, with only 1 claim being filed for the entire project. Centex was able to make approximately \$500,000 on the project attributed to mark-up cost savings and the excellent safety record.

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Despite these savings at the Memorial Hospital Miramar, the mechanical sub-contractor did not initially agree to the terms of the CCIP. The contractor felt the bid amount was being unfairly deducted and a contract amount could not be agreed upon. This disagreement could be attributed to the contractor's unfamiliarity of CCIP policies. The disagreement significantly delayed the project by approximately two months which came out of the general contractor's pocket through overtime wages to ultimately get the project back on track. This delay cost the general contractor approximately \$750,000 for the overtime work.

Solution Overview

The solution to the above problems can be approached from two sides. The use of traditional insurance policies would have eliminated the delays caused by the mechanical contractor not agreeing to the terms of the CCIP. The two months would not have been needed to be made up and the general contractor would have saved the money that had been lost through the additional overtime work. Additional administrative costs would have also been eliminated through the use of the traditional insurance policies.

Although delays in the schedule existed, there was the potential for the CCIP to run smoothly and ultimately be a success. A way to remedy that situation would be to educate subcontractors on the terms of the CCIP to make sure they are familiar with how the CCIP works. This could be accomplished through pre-bid meetings and seminars to

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ensure that all contractors under the terms of the CCIP know what is being offered.

Contractors that aren't familiar with CCIPs would be hesitant to bid the project allowing contractors who have worked with CCIPs before to gain a competitive advantage. It would also be advantageous to hold pre-construction meetings to discuss the insurance policy. On this project, the CCIP forms were just given to the subcontractors without explanation of terms or how the program works. Through conferences conducted by the risk manager, any potential problems could then be dealt with and settled before the construction schedule would be impacted.

Conclusion

A summary of the costs associated with the implementation of the CCIP are as follows:

- Administration Costs: .03% of total project cost = $.03\% \times \$65,201,000 = \$196,000$
- Cost savings from elimination of mark-ups: \$500,000
- Schedule: Two month delay
- Overtime to make up schedule loss: \$750,000

Total cost savings from implementation of CCIP = \$-446,000

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A total of \$446,000 was actually lost on the project due to the implementation of the CCIP program. The main factor contributing to the loss of money was the significant delay caused by disagreements of the CCIP contract. To keep the project on schedule, the general contractor had to pay the sub-contractor \$750,000 in overtime work. If the CCIP program would have went smoothly, however, a potential profit of \$304,000 could have been realized. Although it would have been ultimately advantageous to use traditional insurance programs on this particular project, the use of CCIP at the Memorial Hospital Miramar provided stepping stones for successful implementation of subsequent CCIP programs on other projects. Initiative must be taken to ensure all the contractors bidding and working on the project know and understand the terms of the CCIP to alleviate or address problems before they have the potential to significantly impact a construction project.