

Insurance In Construction Industry

- The architect, the lender, and the owner's insurance agent all have a hand in determining the amount of insurance needed for a project. The types of insurance required for a construction project are as follows:
- Commercial general liability (CGL) provides the contractor with bodily injury and property damage liability coverage while contractors are working on the owner's construction project.
- Contractor's professional liability (CPL) protects contractors from claims of negligent acts and errors and omissions incurred in the course of their professional business. It includes loss of client data, software and related system failures, and claims of fraud.
- Umbrella coverage provides coverage in excess of that included in the basic liability insurance policy.

- Builder's risk, also known as course of construction insurance, provides coverage for loss or damage to any part of the project under construction that has already been paid for via the normal monthly requisitions submitted by the contractor.
- In effect, as the owner pays for a portion of construction, he or she actually "owns" that portion.
- There are two basic types of builder's risk insurance: all-risk, which covers all risks except those specifically excluded, and name-peril, which covers only those risks identified in the policy.
- Generally, owners either exclude the builder's risk policy or have the bidding contractors include the cost as an option or alternate.
- Traditionally an owner and a general contractor execute a construction contract with insurance limits established in the bid documents and the specifications. Included in the notification of insurance limits, the contractor is also given notice that he or she cannot commence work at the site until the insurance certificates have been received and reviewed to ensure compliance with the contract documents.

- Contractors are to include coverage for workers compensation, employer's liability, and general liability. In addition, the contractor must name the owner as an "additional insured" on the contractor's liability policies, which ensures that the contractor will defend the owner in the event of a third-party action.
- The construction contract includes an indemnification clause that requires the contractor to hold the owner blameless for any loss arising out of the execution of the contract for which the contractor may be held liable.

Owner- and contractor-controlled insurance programs

- Insurance program may be a cost saver. In most construction contracts, the general contractor is required to furnish all insurance coverage as required by that contract, and in turn he or she requires the subcontractors to comply with specific insurance requirements, so there are several layers of often repetitive coverage and associated costs.

- The OCIP process basically states, “ General contractor and your subcontractors provide me (the owner) with the cost of insurance premiums for all of the required coverage on my project, and I will provide a blanket policy to cover everyone. ” The owner can then expect a credit to the construction contract sum, since both the general contractor and the subcontractors will have reduced their costs to exclude insurance coverage.
- A variation on this scheme is one in which the general contractor provides coverage for all of the subcontractors, which is called a **contractor-controlled insurance program (CCIP)**. In both cases, these insurance products are meant to provide adequate coverage at a reduced cost.
- Here are some of the advantages of OCIP:
- Potentially lower insurance costs because of volume discounts
- Insurance requirements filled by the owner, allowing some contractors who couldn't furnish policies with high limits to fulfill the job requirements
- Improved management of claims and loss control due to centralization
- Broader coverage with higher limits

- Faster provision of insurance certificates and more precise monitoring of expiration dates.

Disadvantages:

- Additional administrative burden placed upon the owner
- Additional time and effort required to extract, analyze, and approve the cost of insurance from the general contractor and all subcontractors to ensure that the proper credit has been provided
- Significant owner's responsibility to monitor on-site safety because a contractor's inadequate safety program will cause more accidents and therefore increase premiums.
- For certain projects, however, an OCIP or CCIP program may be beneficial and, if considered, should be made a part of the bid documents.

Construction surety bonds:

- If the contractor can provide a payment and performance bond, even when it may not be a specific requirement, this is an indication that the contractor has financial strength, since the bonding company requires certain minimum financial, management, and cost-control standards.
- Bonds are not the same as insurance. Insurance is a loss-sharing mechanism that protects the policy holder from damages that may occur in the future, whereas bonds provide guarantees of contract performance, payment, and project completion. High bonding limits or capacities are prized by contractors, since they exhibit the three C's of bonding: character, capital, and capacity.
- The Surety Association of America has developed a series of qualities that they attribute to a solid contractor organization:
 - ✓ Contractors who have formal and on-the-job training for all levels of employees

- ✓ Logical, incentive-based compensation programmes.
- ✓ Tenure for proven field supervisors and internal promotion wherever possible
- ✓ Depth at all levels of the organization
- ✓ Succession planning (since many small to midsize construction firms are family businesses)
- ✓ An up-to-date distributed organization chart
- ✓ A culture of loyalty, ownership, and urgency
- ✓ Visionary, inspirational leadership
- ✓ Low turnover
- ✓ Solid management of cash flow and overhead
- ✓ Profit-focused company
- ✓ Timely payment of bills

- ✓ Reasonable growth without overextending resources
- ✓ Superior estimating skills and systems to manage costs
- ✓ Satisfied customers
- ✓ A well-defined market niche and a 12- to 36-month growth plan
- ✓ Closely managed projects with early warning systems to catch potential problems
- ✓ Litigation avoidance
- ✓ Only qualified and interested family members in management
- ✓ A continuity plan with adequate life insurance

Thank You