



# The Office of Construction Safety and Health

At the National Institute for Occupational Safety and Health—NIOSH



## Webinar Series:

### Insurance and Workers Compensation for Construction—Untangling the Mysteries

Webinar 3: How are construction projects insured: Part 2. Mid-sized Projects

February 22, 2017

*The findings and conclusions in this presentation were developed in partnership with Liberty Mutual Insurance, and they have not been formally disseminated by the National Institute for Occupational Safety and Health, and should not be construed to represent any agency determination or policy.*





## Moderator

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## Featured Presenters

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# NIOSH Construction Insurance Webinar Series

Insuring Mid-size Construction Projects

February 22, 2017



# Today's Discussion

Workers Compensation  
Insurance At-a-Glance



Alternative Plans



Insuring Multi-employer Work Sites



The Influence of Loss



The Influence of Safety Process



# Mid-Size Contractor (Employer) Defined

## Organization for Economic Cooperation and Development

- Mid-size business as one with between 50 and 250 employees

## Ohio State University's National Center for the Middle Market

- Mid-size company as one with average annual revenue between \$10 million and \$1 billion

## U.S. Small Business Administration

- General building and heavy construction – \$36.5 million in average annual receipts
- Special trade contractors – \$15.0 million in average annual receipts

<https://www.oecd.org/unitedstates/>

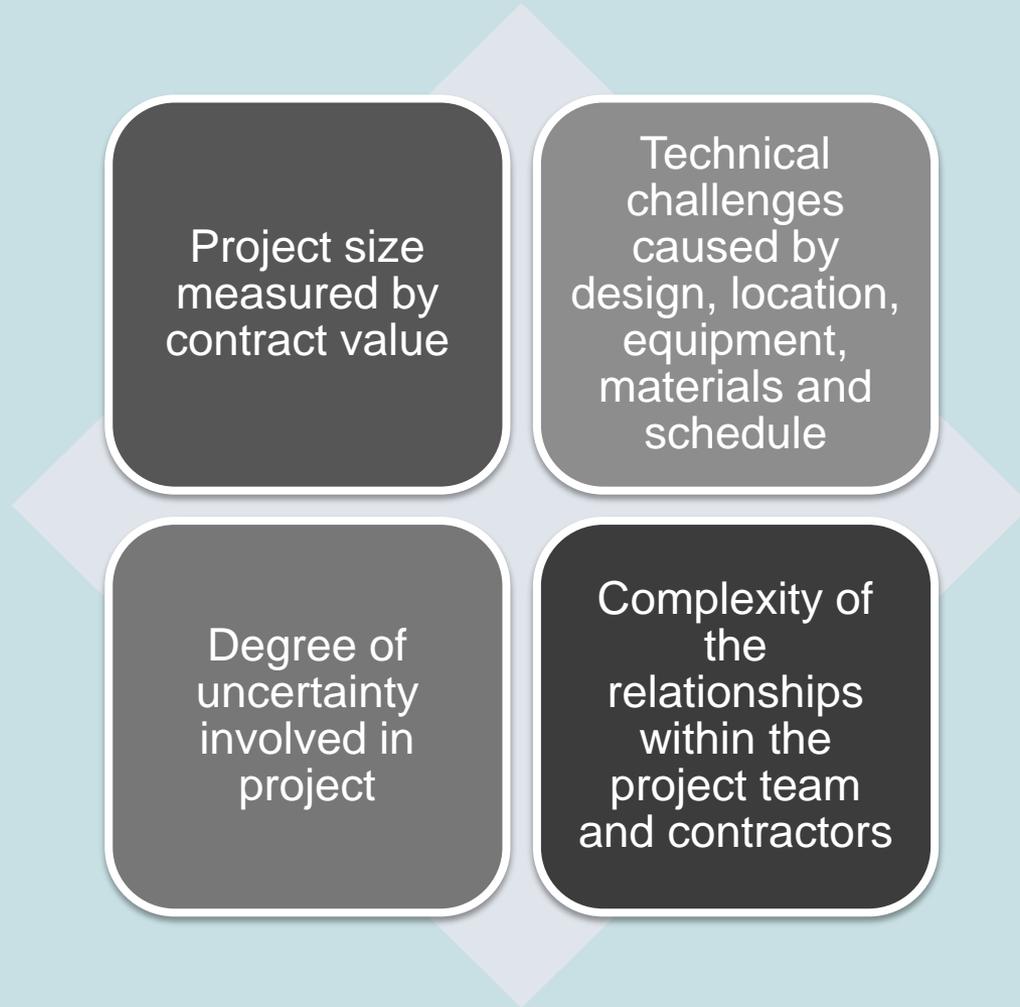
<http://www.middlemarketcenter.org/>

<https://www.sba.gov/>

**Liberty Mutual Insurance**



# Project Risk Characteristics



# Workers Compensation Insurance (Workers Compensation)

## Medical & Disability Benefits

- Heal the worker
- Compensate for lost wages or earnings capacity

## Rehabilitation Benefits

## Death Benefit

## Exclusive Remedy

- Covered workers give up the right to sue employer



# Two Coverages in One Policy

- Provides medical, disability & death benefits as defined by State law
- No policy limit; liability is equal to benefits prescribed by law

## Part One



- Covers claims for work-related injuries / illnesses outside the Workers Compensation statute, policy limits

## Part Two



# Tailor Coverage to Operations

Longshore and Harbor  
(USLH)

Maritime Coverage

Joint Ventures

Alternate Employer and  
Employee Leasing

Voluntary  
Compensation

Broad Form Named  
Insured

Designated Workplaces  
Exclusions

- CIP/Wrap up projects

# Insurance: Risk Financing Plan

## Plan Type

### Guaranteed Cost

- Premium fixed for policy period

### Retrospective (endorsement)

- Premium adjusted on the basis of loss in the policy period

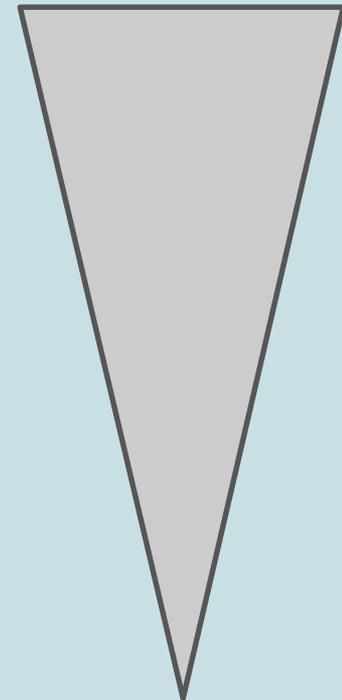
### Deductible

- Insurance coverage over a specified amount per occurrence

### Self-Insured

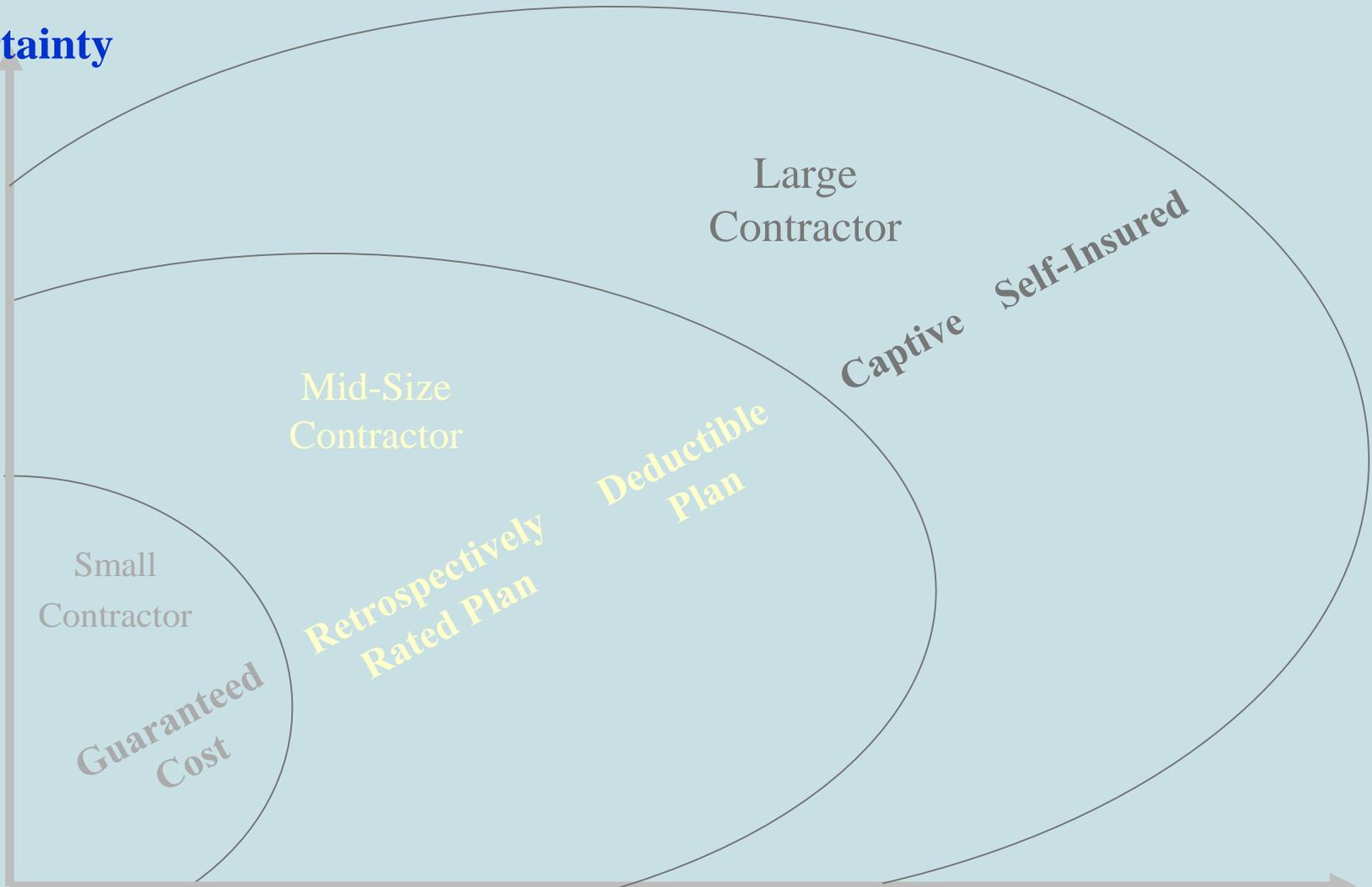
- Loss costs paid by client

## Risk Transferred



# Common Risk Financing Plans

Uncertainty



Opportunity for Savings

# Rating

## Two basic types of rating methods

### Manual rate

Employers are grouped into classifications and an average loss cost “rate” is based on payroll

### Experience rate

Actual company payroll and loss data used to develop a modifier

- Computed by NCCI and not impacted by pricing programs
- Refines final premium to the individual employer
- Provides safety incentives absent manual rating alone
- Greater weight to accident frequency than severity
- Incident loss cost is capped
- Based on 3-year data less last 12-months

# Experience Rating Workers Compensation Premiums

Classification	Payroll	Divided by 100	Rate per \$100 of Payroll	Premium
Clerical	\$ 70,000	700	\$ 0.75	\$ 525
Roofer	\$200,000	2,000	\$63.17	\$126,340

Total Premium	= \$126,865
Modification Factor	= 1.25
Modified Premium	= \$158,581

Manual Rate

Experience Mod (EMR)

## More about the Modification Factor

- A credit modification is lower than 1.00
- A debit modification is higher than 1.00
- Types of Modification Factors
  - Interstate & Intrastate
  - Preliminary, Final & Contingent
- The larger the premium size, the more reliable the actual record is in predicting future losses.

# Let's Go Retro

Also referred to as a loss sensitive plan because costs are directly tied to actual losses at expiration of a rating period

Starts with  
experience rating

Subject to a  
min/max premium

Retro endorsement  
contains a rating  
formula

Based on paid or  
incurred loss

# Deductible Plan

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First layer of loss funding is covered by policyholder

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Insurance company pays claim on a first-dollar basis and then seeks reimbursement

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For large deductible plans, collateral needed for losses within deductible

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Aggregate stop loss puts cap on amount that the insured be obligated to pay

# Captive Insurance

General Definition: A licensed insurance company that is wholly owned and controlled by its insured's to:

- insure the risks of its owners; and
- provide underwriting profits to its insureds

## Common reasons for a captive

- Reduce costs / decrease effects of volatility
- Insure unique or challenging risks
- Direct access to Reinsurance
  - “Insurance for Insurers” – used to hedge against large loss
- Share / invest unused funds
- Tax advantages

# Various Types of Captives

Captive Type	Who Supplies Capital?	Use of Front	Typical Users
Single Parent	Owners	Maybe	Larger corp.
Group	Owners	Maybe	Smaller corp., universities
Sponsored Cell	Sponsor	Maybe	Small corporations
Risk retention group	Owners	No	Health care systems

## Fronted Captive Program



# Plan Comparison and Summary

Insurance Plan Comparison Points	Guaranteed Cost	Retros	Large Deductible	Captive
Premium Range	<\$350,000	>\$500,000	>\$500,000	>\$500,000
Loss Sensitivity	Low	High	High	High
Budgetary Stability	High	Moderate	Low	High
Admin. Burden	Low	Moderate	Low	High
If insured is risk averse	Favorable	Less Favorable	Unfavorable	Unfavorable
Cash flow to insured	Low	Moderate - High	High	Moderate

# Controlled Insurance Plan aka “CIP”, “Wrap-up”, “Wrap”

Insurance policy(s), specific to a construction project, that provides coverage to all contractors involved

Typically written for

- Workers Compensation and General Liability
- Larger or more complex projects



# Controlled Insurance Plan Types

## CIP

### Owner-Controlled Insurance Plan (OCIP)

- Project Owner provides policies for a specific project

### Contractor-Controlled Insurance Plan (CCIP)

- General Contractor or Construction Manager provides policies for a specific project

## Rolling CIP

### Rolling Owner-Controlled Insurance Plan (ROCIP)

- Owner provides policies for multiple, usually related, projects for a specified time frame
- E.g. Individual schools in a school district

### Rolling Contractor-Controlled Insurance Plan (RCCIP)

- General Contractor or Construction Manager provides policies

# CIP Strategy



Significant potential for **returns** if high-functioning safety processes are in place

- Established contractually with enrolled contractors
- Managed daily by project management
- Approached as a partnership between owner, Construction Manager, & risk services providers

Significant potential for **loss** if project risk management is sub-par

- Owner not conceptually invested
- Project Management not actively involved in contractor safety
- Dysfunctional risk management partnership

# Insurance Plans

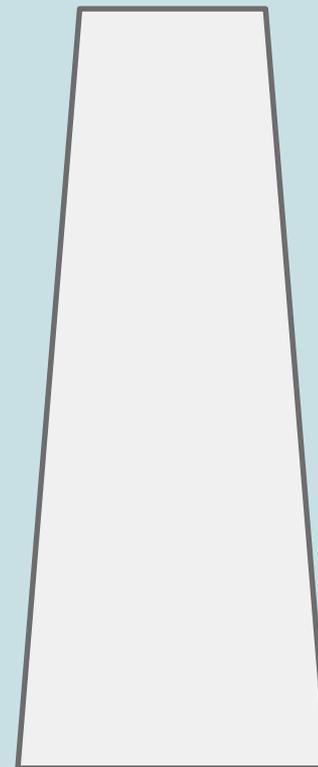
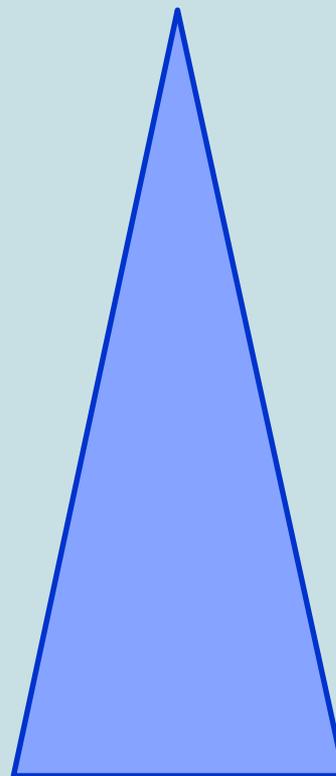
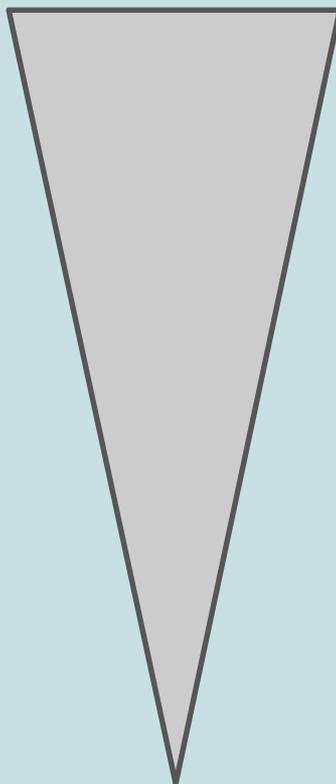
## Plan Type

Risk Transfer

Loss Sensitivity

Safety Value

Guaranteed Cost  
Retrospective  
Deductible  
Self-Insured



# Effects of Safety Process from an Underwriting Perspective – New Business



Underwriting Construction is widely recognized as unique & specialized

- Most major insurers have dedicated groups

Construction underwriters develop deep industry knowledge & relationships

- Networked externally with industry groups & brokers
- Close internal collaborations with Risk Control specialists
  - More likely to request & consider assessment of safety process



# Effects of Safety Process from an Underwriting Perspective – Existing Business



Close attention to evidence of risk reduction

- Collaboration with Risk Control Service
- Effective, responsive relationship

More likely to adjust pricing on the basis of what is being done

- Assuming stability in “what happened” in recent policy years



# Resources

## International Risk Management Institute

IRMI is a prominent source of risk management guidance  
& intelligence relevant to construction

<https://www.irmi.com/>

# Thanks for Your Participation!

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## NIOSH Directory of Construction Resources

<http://www.cdc.gov/niosh/construction/>

### Twitter

<http://twitter.com/NIOSHConstruct>



# Thank you!

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