Webinar Series:
Insurance and Workers Compensation for Construction—Untangling the Mysteries
Webinar 3: How are construction projects insured: Part 2. Mid-sized Projects

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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
Christine M. Branche, Ph.D., FACE
Principal Associate Director and Director
Office of Construction Safety and Health
National Institute for Occupational Safety and Health

Featured Presenters
John Rabovsky, MS, CSP, CHST, CRIS, ARM
Managing Director - Technical Services
Insurance Risk Control Services
Liberty Mutual Insurance

George “Don” Tolbert, CSP
Technical Director
Risk Control Services
Liberty Mutual Insurance
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

- Project size measured by contract value
- Technical challenges caused by design, location, equipment, materials and schedule
- Degree of uncertainty involved in project
- Complexity of the relationships within the project team and contractors
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

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Two Coverages in One Policy

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

Part Two
- Covers claims for work-related injuries / illnesses outside the Workers Compensation statute, policy limits
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
Common Risk Financing Plans

Uncertainty

Opportunity for Savings

Small Contractor

Guaranteed Cost

Mid-Size Contractor

Retrospectively Rated Plan

Large Contractor

Deductible Plan

Captive

Self-Insured

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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

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.

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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

First layer of loss funding is covered by policyholder

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

For large deductible plans, collateral needed for losses within deductible

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

<table>
<thead>
<tr>
<th>Captive Type</th>
<th>Who Supplies Capital?</th>
<th>Use of Front</th>
<th>Typical Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Parent</td>
<td>Owners</td>
<td>Maybe</td>
<td>Larger corp.</td>
</tr>
<tr>
<td>Group</td>
<td>Owners</td>
<td>Maybe</td>
<td>Smaller corp., universities</td>
</tr>
<tr>
<td>Sponsored Cell</td>
<td>Sponsor</td>
<td>Maybe</td>
<td>Small corporations</td>
</tr>
<tr>
<td>Risk retention group</td>
<td>Owners</td>
<td>No</td>
<td>Health care systems</td>
</tr>
</tbody>
</table>

### Fronted Captive Program

- Corporation
- Insurance Company
- Captive

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## Plan Comparison and Summary

<table>
<thead>
<tr>
<th>Insurance Plan Comparison Points</th>
<th>Guaranteed Cost</th>
<th>Retros</th>
<th>Large Deductible</th>
<th>Captive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Range</td>
<td>&lt;$350,000</td>
<td>&gt;$500,000</td>
<td>&gt;$500,000</td>
<td>&gt;$500,000</td>
</tr>
<tr>
<td>Loss Sensitivity</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Budgetary Stability</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Admin. Burden</td>
<td>Low</td>
<td>Moderate</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>If insured is risk averse</td>
<td>Favorable</td>
<td>Less Favorable</td>
<td>Unfavorable</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>Cash flow to insured</td>
<td>Low</td>
<td>Moderate - High</td>
<td>High</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

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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

Owner
GC/CM
Tier 1 Sub
Tier 2 Sub
Tier 3 Sub
Tier 4 Sub

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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

Guaranteed Cost
Retrospective
Deductible
Self-Insured

Risk Transfer
Loss Sensitivity
Safety Value
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
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!

John Rabovsky, MS, CSP, CHST, CRIS, ARM
Managing Director – Technical Services

- John.Rabovsky@LibertyMutual.com

Don Tolbert, CSP
Technical Director

- George.Tolbert@LibertyMutual.com
Thank you!

Christine Branche, Ph.D., FACE
Principal Associate Director, NIOSH
Director, Office of Construction Safety and Health, NIOSH

cbranche@cdc.gov