Construction sites can be a flurry of activity. In addition to focusing on quality construction and completing projects on time, site owners must be sure risk management measures are sufficient. A Controlled Insurance Program (CIP) can be tailored to meet the complex needs of a site, ensuring adequate coverage is provided for all involved parties.

Traditionally, owners and contractors depended on contractual risk transfer to pass risk to appropriate contractors or subcontractors. However, contractual risk transfer is growing less reliable. Some state statutes limit the transfer of liability from one party to another. There are more than 400 different additional insured endorsements used by various carriers that can limit coverage provided. These factors make it difficult to determine if a contractor or subcontractor has adequate insurance coverage.

Some subcontractors may think their Blanket Additional Insured Endorsement automatically provides the additional insured wording required in their contract for both premises and completed operations coverage for all upstream parties. Their certificate of insurance may indicate the subcontractor meets the requirements in the contract, but the policy may not provide coverage. The sponsor (of a CIP) controls the implemented safety program for the entire project site, creating a safer work environment.
Additional Insured Endorsement may only provide ongoing operations coverage for the immediate upper-tiered subcontractor who holds their contract. Upstream owners and contractors and completed operations coverage may not be provided.

The Insurance Services Office Inc. (ISO) updated the commercial general liability policy form and endorsements effective April 2013. ISO is an organization that collects statistical data, circulates rating information, develops standard policy forms and files information with state regulators on behalf of insurance companies that purchase its services. The updates are meant to clarify the original intent of policy language as a result of courts misconstruing the intent regarding additional insureds as well as policy terms, conditions and limits subject to a third-party contract. Some carriers are adopting the new ISO Additional Insured Endorsements, while others continue to use older versions or their own manuscripted Additional Insured Endorsements. To further complicate matters, some of the new ISO wording creates new challenges.

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<th>ISO Additional Insured Endorsement Revisions</th>
<th>Challenge</th>
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<tr>
<td>Apply to the extent permissible by law.</td>
<td>Unfortunately, the law is not clear and is further complicated by state exceptions.</td>
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<td>Coverage cannot be broader than the coverage required by the contract.</td>
<td>Attempts to amend policy terms and conditions based on an unrelated contract.</td>
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<tr>
<td>Coverage is limited to the amount required by the contract or agreement, or the policy limit, whichever is less.</td>
<td>This will require contracts to be specifically structured to match your intended insurance requirements of the contractor/subcontractor.</td>
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<td>ISO developed a new form (CG2038 0413 Additional Insured Owners, Lessees or Contractors—Automatic Status for Other Parties When Required in a Written Construction Agreement) to address construction project sites where additional insured coverage is required when a direct contract is not involved.</td>
<td>While this endorsement provides coverage for upstream parties, the form is not yet widely used by carriers. Completed operations coverage is not included, so you will need to require additional insured endorsement (CG2037 0413) to provide coverage.</td>
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Ask your Lockton representative for a special briefing paper regarding these ISO changes.

Clearly, insuring a construction project site is very complex. How can a general contractor or owner be sure he or she is protected from potential pitfalls?

A Controlled Insurance Program (CIP), also known as Contractor-Controlled Insurance Program (CCIP), Owner-Controlled Insurance Program (OCIP) or Wrap-Up, assures adequate coverage is being provided for a construction site. The sponsor of the CIP can be the construction manager, general contractor or owner.

Under a CIP, all enrolled contractors or subcontractors at the project site receive general liability, excess and, in many cases, workers’ compensation coverage. These coverages can be tailored to meet the needs of a specific site or project. A CIP can cover a single site, typically a large project, or multiple sites. Alternatively, a rolling CIP is based on a projection of expected work to be completed over a period of time, typically three years with an extension to complete projects started during those three years. A minimum project size for enrollment into a rolling CIP is required by carriers, usually between $10 million and $25 million. The total of all projects must exceed $100 million.
Some of the many advantages of using a CIP to cover a construction project site are:

- The sponsor and all enrolled contractors/subcontractors are named insureds, not additional insureds.
- Extended completed operations coverage is provided for 10 years or through the state’s statute of repose, whichever is less.
- The policy limits for a project, including all enrolled contractors/subcontractors, are determined by the sponsor, ensuring all tiers have adequate coverage.
- When subcontractors bring their own insurance to the project site, their limits may be impaired by losses at other project sites. The CIP provides unimpaired limits for each project site.
- There are no subcontractor hidden policy exclusions that may not appear on a subcontractor’s certificate of insurance.
- The sponsor controls contract language that requires direct contracts to pass down to all tiers of subcontractors.
- The sponsor controls the implemented safety program for the entire project site, creating a safer work environment.
- All enrolled contractor/subcontractor claims are paid by one carrier. This avoids disputes between carriers that could damage relationships with a subcontractor and/or slow the construction timeline.
- Cross litigation is reduced by having all claims paid by the same carrier.
- When the workers’ compensation coverage is provided in the CIP, action over claims are reduced. The CIP sponsor has greater control over the cost of a workers’ compensation claim than on a third-party action over a claim on a general liability policy.

With the current challenges of contractual risk transfer, CIPs are a practical way to ensure all subcontractors have the proper coverage to protect a worksite.

For more information, please contact your Lockton representative.
Our Mission

To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal

To be the best place to do business and to work