Before you bid on a construction contract, knowing your insurance obligations will help you avoid unforeseen challenges. Here’s a helpful guide for contractors who need to bid, enroll and participate in an Owner Controlled Insurance Program (OCIP) or Contractor Controlled Insurance Program (CCIP), also known as a wrap-up or CIP.

Getting into a CIP and complying with the rules is far less stressful if you ask the right questions and check the necessary details up front. Your Lockton representative will help you sort through the process and prepare the necessary documentation so you can be on the job and ready to roll on Day One.
GETTING STARTED

Before you submit your bid, make sure you are aware of the data and documentation you need to provide. Review the contract language and Project Insurance Manual (PIM) provided for the CIP. They will outline your responsibilities on the project site, insurance you will be required to provide and the coverage provided by the CIP. The PIM will contain the forms you need to complete such as the enrollment form, payroll reports and notice of completion. Many CIP administrators have electronic enrollment and payroll reporting available.

To complete enrollment in the CIP, you will be required to provide proof of insurance coverage, including, but not limited to workers’ compensation, general liability and auto liability. Review the policy limits, additional insured and waiver of subrogation requirements to verify you and any subcontractors you hire have the required insurance. When you ask your insurance agent to issue the certificate of insurance, provide a copy of the sample certificate in the manual. Some sponsors require the exact wording without exception.

Share both the CIP language and project insurance manual with your insurance agent so they can help you avoid coverage gaps. Your Lockton Account Executive and the Lockton CIP team are available to help you sort through the requirements and work with your insurer if additional coverage is required.

UNDERSTANDING YOUR INSURANCE EXPENSES

The CIP has a specific method for calculating your portion of the insurance called the insurance deduct or insurance credit. The most common methods of calculation include:

- **Bid gross**—If you bid gross, a change order will be processed to remove the amount of your insurance (“deduct”) from your contract.
- **Bid net**—If you bid net of insurance, you do not include your insurance costs in the bid.
- **Add alternate**—You will not include your insurance costs in your bid, but include specified documents identifying your insurance costs for your work included in the CIP.
- **Percentage of contract value**—Under this arrangement, you are charged a specific percentage of your contract value by the sponsor of the CIP.

Typically in a CIP, you are asked to provide copies of your declarations and rate pages, and may also be asked to send your additional insured endorsement(s) and wrap-up exclusion(s). Review your additional insured endorsement with your agent and verify that you have coverage for both the construction period and the completed operations period. If the endorsement requires a written contract, make sure you have a written contract in place with your upper-tier contractor.
**WHAT’S COVERED?**

The CIP provides general liability and excess coverage; some projects also provide workers’ compensation coverage to enrolled contractors/subcontractors.

Since workers’ compensation may or may not be included, make sure you know what is being provided by the sponsor. If workers’ compensation is included, you will be required to submit monthly payroll reports, and your payroll and losses will be included in the calculation of your experience modification.

In most states, you will receive a workers’ compensation policy on which you are the named insured. There are a few exceptions (e.g., only one policy is issued for all contractors in Michigan). Deduct calculations are usually based on payroll.

Only one general liability policy is issued for all participants in most states. You will need to request a copy of the policy to obtain more than a summary of coverage. The PIM summarizes the CCIP GL coverage. You will need to request a copy of the policy to obtain complete policy information.

Verify that the excess liability coverage limits are adequate.
SMART QUESTIONS CAN PREVENT COVERAGE GAPS

Sometimes gaps between the wrap-up coverage and your own coverage will arise. It’s important to anticipate these very specific and sometimes complex issues, so ask the right questions and ensure the gaps are closed. Below are items that you should discuss with your insurance agent and the administrator of the CIP as you complete your enrollment.

- How long is the completed operations period, and does it cover the statue of repose in the state in which you are working?
- If your general liability policy includes the CG 21 54 Wrap-up Exclusion, you do not have any coverage under your own policy for the CIP project after the CIP coverage ends.
- The CG 21 31 is a general liability “limited wrap-up exclusion.” The exclusion does not apply if the CIP has been cancelled, non-renewed or otherwise no longer applicable other than exhaustion of all available limits.
- If the CIP exceeds the project limits, does your traditional insurance coverage sit above the CIP? Have your insurance agent ask your insurer to endorse your policy to sit above the CIP policy limits and after the CIP ends. (This endorsement is difficult to obtain, so your insurer may not agree.)
- Is warranty work covered under the CIP? Typically, coverage is only provided when the CIP general liability policy contains a “repair work” endorsement. You will be responsible for your employees’ workers’ compensation coverage during the warranty work even when this endorsement is attached to the CIP general liability policy.
- CIP coverage is specific to the project site. Some CIP policies do not provide coverage if, for instance, your crews have to make a pickup off-site. Full-time drivers are not covered under the CIP; they will be under your own coverage.
- Insurers conduct annual payroll audits on projects that include workers’ compensation coverage. It is not uncommon for the insurer’s payroll auditor to change a workers’ compensation class code to more accurately reflect the work performed. If the new classification code has a higher rate, your insurance deduct/credit may be adjusted to the higher rate. See the closeout section on page 7 for additional information.
When a claim occurs, is there a loss deductible paid by the subcontractor? If so, how much is the subcontractor’s responsibility?

Damage to the project during the course of construction is excluded from the General Liability policy. Your coverage is provided under the Builders Risk Policy. The Builders Risk may be provided by either the General Contractor or Project Owner. It is important to know what deductible you will be responsible to pay under the Builders Risk policy.

No coverage is provided until your enrollment is completed, so do not begin work until you receive confirmation from the administrator that your enrollment is completed.

Your Lockton Account Executive or the CIP team will help answer any questions you may have.
WHAT’S NOT COVERED

CIP coverage does not include automobile liability, contractors equipment, pollution liability, professional liability or off-site general liability. If the CIP includes workers’ compensation coverage, it does not apply off-site.

Hiring a Lower Tiered Subcontractor

If you are hiring lower-tiered subcontractors, there are several things you must do to ensure they, too, are covered under the wrap-up:

- Forward the CIP contract language to them and provide a copy of the Project Insurance Manual.
- You will be responsible for the insurance deduct of all your subcontractors. Be certain they have followed the CIP instructions for bidding the insurance portion of the contract.
- The subcontractor must meet the CIP requirements and be enrolled prior to mobilizing at the project site.

The following contractors are typically excluded from wrap-up coverage:

- Vendors, material dealers and suppliers (however, when hiring a subcontractor to install your product, you must enroll in the CIP along with your lower tiered subcontractor)
- Off-site fabrication
- Drivers and haulers delivering to the project site, including loading and unloading
- Environmental remediation
- Demolition

CLAIMS HANDLING

- Every CIP has specific steps for handling a claim. Review the Project Insurance Manual for information regarding claim reporting and know the steps so you are prepared.
- The sponsor of the CIP must be promptly notified of the incident.
- The sponsor will designate a nearby clinic for medical treatment. Some project sites have an on-site medical trailer as the first stop after an injury.
- Lockton CIP projects that include workers’ compensation coverage typically have an Injury Counselor assigned to the project to help your employee navigate through the claim process.
- You can request periodic loss runs that show your claims incurred at the project site.

OTHER POTENTIAL OBLIGATIONS/EXPENSE

Are you required to have a full-time safety person on-site? If so, this may be an expense you would not otherwise have. Some CIPs require this based on your number of employees on the site.
THE CLOSEOUT PROCESS

You will need to complete a form when your work at the site is completed. There may be a deduct adjustment at closeout. If so, typically the rate used in your bid is used in the final calculation. Class code rate adjustments from the insurer’s premium audit may be included in the adjustment.

COMMUNICATION IS THE KEY

Communication is the key to successful compliance with the terms and conditions of a CIP. As you can see, there are many parties involved, lots of information to provide and plenty to remember. Lockton has a full-service CIP team available to Lockton clients enrolling in a CIP, even if it’s not a Lockton-administered program. Your Lockton team will help you understand all the requirements, provide the necessary documentation, coordinate enrollment with all the parties and be with you every step of the way so your insurance needs are efficiently addressed during the life of the construction project.
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