

The OCIP Revolution

PARMA Conference - 2016

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The OCIP Revolution

- A. Welcome to the Revolution
- B. OCIP 101 – What is it and how does it work?
- C. OCIP Benefits
 - 1. Cost Savings
 - 2. Coverage Control
 - 3. Claims Control
 - 4. No More Cross Litigation
 - 5. Emphasis on Loss Control
- D. OCIP Lessons Learned – A Public Entity Perspective
- E. Join the Revolution!



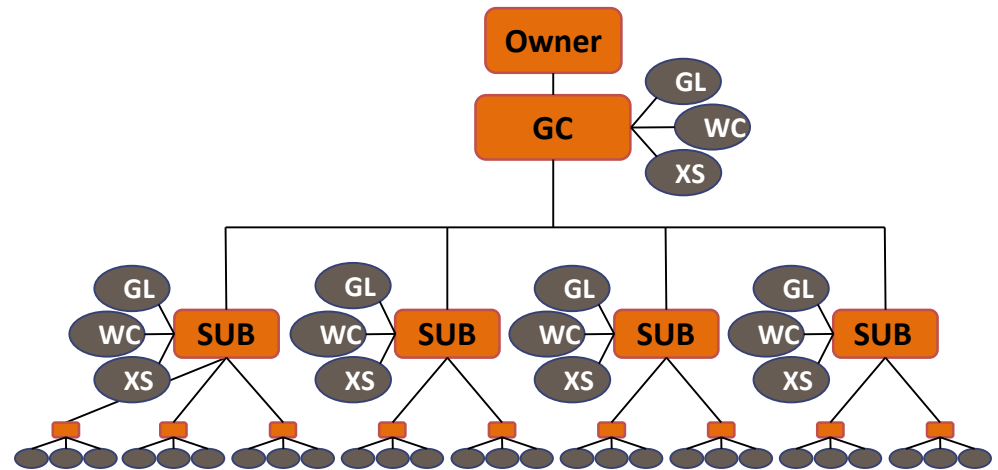
Welcome to the Revolution

- OCIPs have been used for years on larger projects.
- The owner of a construction project provides GL and WC coverage for all involved parties.
- Single projects with construction value of \$125M+
- Multiple smaller projects combined into a “Rolling” OCIP Program that total at least \$50M
- Massive increase in use over the last 10 years due to:
 - Changes in indemnification laws (SB 474)
 - Changes to additional insured endorsements
- Majority of larger projects now use controlled programs.

OCIP 101 - How Does it Work?

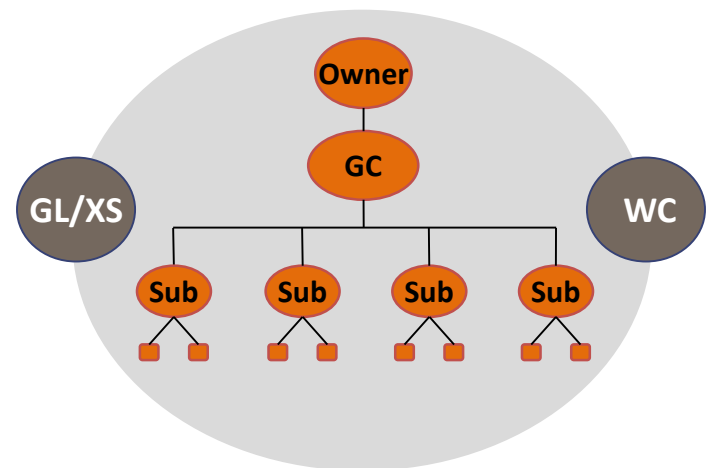
Traditional Insurance Approach

- ❑ Multiple Insurers
- ❑ Inadequate Limits
- ❑ Potential Gaps in Coverage
- ❑ Potentially Uninsured Subcontractors
- ❑ Cross Litigation Between Contractors
- ❑ Indemnity Issues (SB 474)

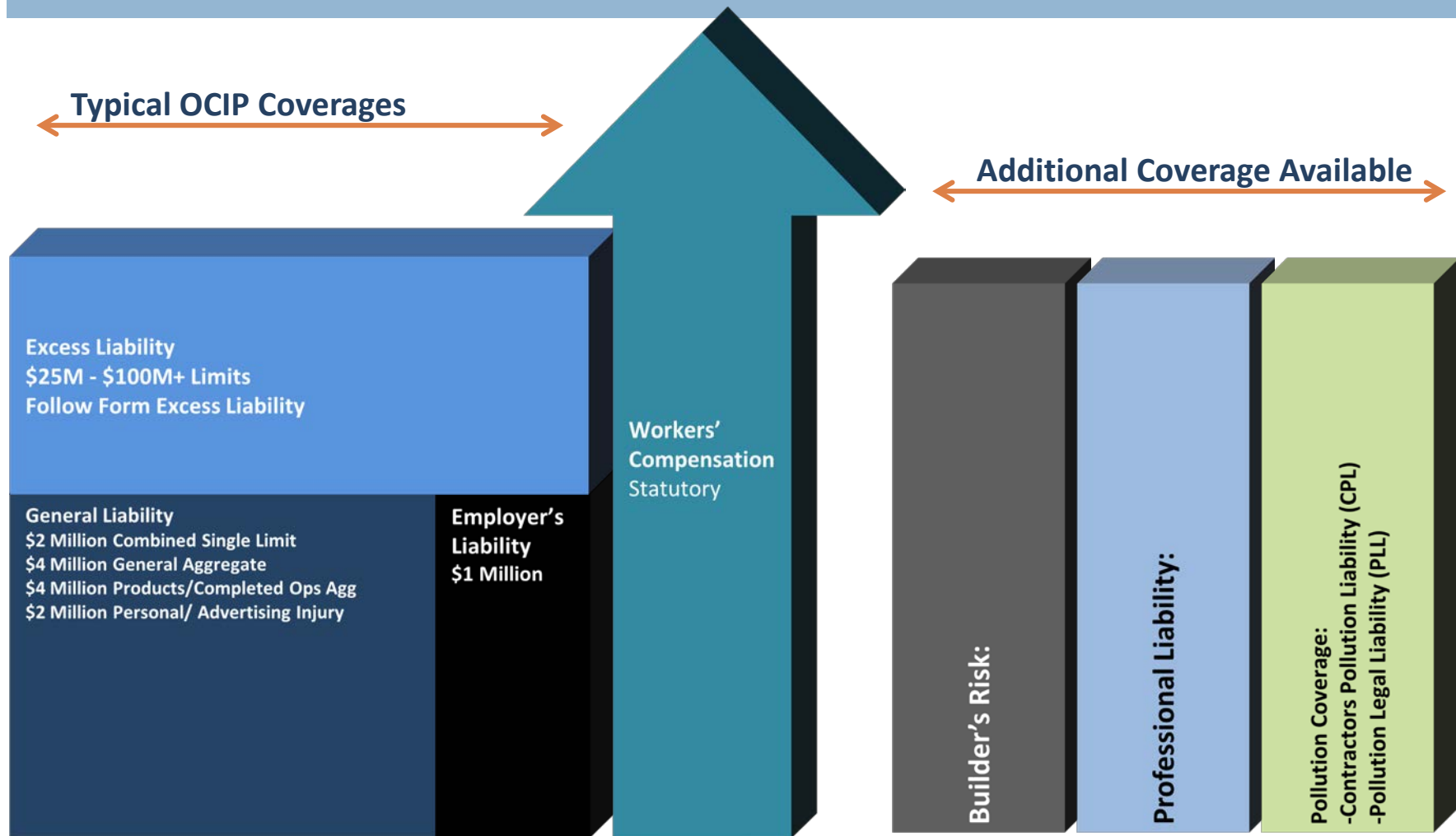


OCIP Program

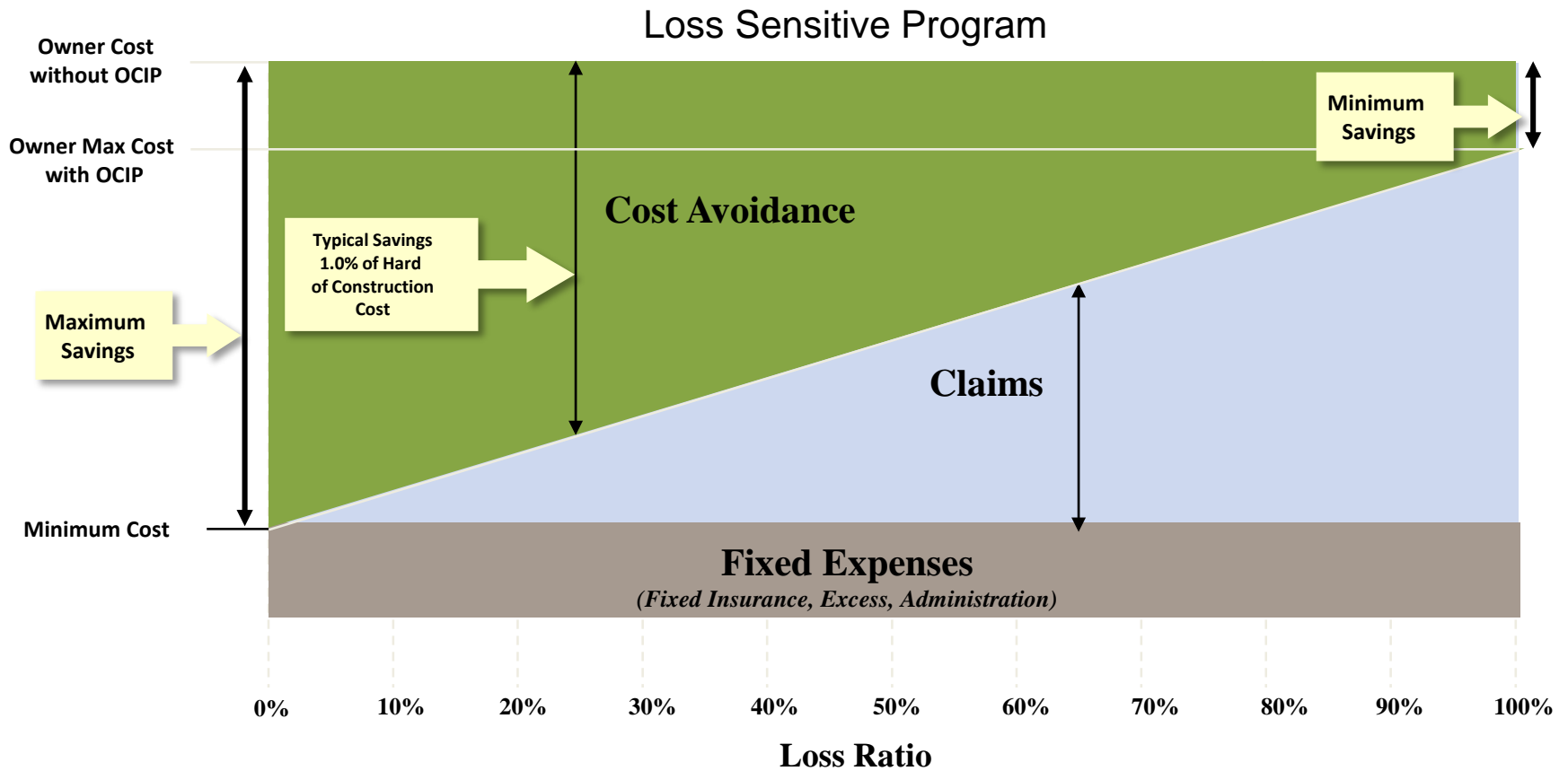
- ❑ Control
- ❑ Cost Reduction
- ❑ Elimination of Redundant Insurance Costs and Associated Contractor Mark-up
- ❑ Higher Coverage Limits
- ❑ Consistent Coverage Across Contractors
- ❑ Specialized/Coordinated Claims and Loss Control
- ❑ Minimize Cross Litigation/Subrogation
- ❑ Public Relations Advantages
- ❑ Allows for a Larger Qualified Contractor Pool
- ❑ Allows for More Small, Local Contractor Participation



OCIP 101 – What is Covered?



OCIP 101 – How is it Structured?



OCIP 101 – Who Does What?

Task	OCIP Administrator	Public Entity Risk Management	Public Entity Project Management	Contractor
Project Identification	X	X		
OCIP Sales	X	X		
OCIP Education	X	X		
Premium Payment/Invoicing	X	X		
Contract Documents	X	X	X	
Program Administration	X			X
Loss Control	X		X	X
Claims Advocacy	X	X		

OCIP 101 - Pre-Construction

- Hire the Broker
- Provide Insurance Contract Language
- Develop Insurance Manual
- Conduct Project Team Orientation
- Conduct Contractor Orientation
- Set-up Admin Database



OCIP 101 – During Construction

- Utilize Web-based Admin Database
- Online Data Submission, Viewing, Reporting
- Monitor Contractors
- SIP Programs
- DVBE Participation
- Quarterly Stewardship Meetings
- Contract Costs
- Claims Review



OCIP 101 – Project Completion

- ❑ Coordinate expiration/cancellation date of policy (may need to extend).
- ❑ Closeout Contractors
- ❑ Finalize Bid Credits
- ❑ Closeout Project(s)
- ❑ Deliver Reports
- ❑ Monitor Claims



OCIP Benefits

Elimination of redundant insurance costs and mark-ups

Higher limits of insurance (\$25 million to \$200 million+)

Flexibility in premium financing – 10 years completed operations coverage

Solves indemnity issues of SB 474 for general contractors

Minimized cross-litigation/subrogation

Larger, qualified contractor pool

Access to loss control, claims oversight, and risk management resources

Streamlined, turnkey implementation process

Enhanced small business enterprise initiatives

Reduced administrative burden

OCIP Benefits – Cost Savings

- OCIP Programs typically save ½ to 1% of Construction Values
 - Up-front savings compared to traditional
 - Fixed costs + aggregated loss fund less than cost of traditional insurance costs built into contractor bids
 - Additional savings depending on loss experience
 - Dividends, Dividends, Dividends

Sample Pro Forma – Standalone Program

PROJECT	
Construction Value	\$ 250,000,000
Payroll	\$ 47,500,000

19%

CONTRACTOR INSURANCE COSTS	PREMIUM	% OF CV
Subcontractor & GC Insurance Costs – WC/GL/XS	\$ 6,875,000	2.75%
Total	\$ 6,875,000	

OCIP PROGRAM COSTS	MINIMUM	LOSS AGGREGATE	MAXIMUM	% of CV
Combined WC/GL Premium Rate	\$ 4.52	\$ 4.69	\$ 9.21	
Combined WC/GL	\$ 2,147,000	\$ 2,227,750	\$ 4,374,750	1.75% (@max)
Excess Premium	\$ 900,000		\$ 900,000	0.36%
Administration	\$ 575,000		\$ 575,000	0.23%
Total OCIP Program Costs	\$ 3,622,000	\$ 2,227,750	\$ 5,849,750	2.34% (@max)
	1.45%	0.89%	2.34%	

	LOSSES	PROGRAM COSTS PLUS LOSSES	INSURANCE CREDITS	PROGRAM SAVINGS	% OF CV
0%	\$ -	\$ 3,622,000	\$ 6,875,000	\$ 3,253,000	1.30%
10%	\$ 222,775	\$ 3,844,775	\$ 6,875,000	\$ 3,030,225	1.21%
20%	\$ 445,550	\$ 4,067,550	\$ 6,875,000	\$ 2,807,450	1.12%
30%	\$ 668,325	\$ 4,290,325	\$ 6,875,000	\$ 2,584,675	1.03%
40%	\$ 891,100	\$ 4,513,100	\$ 6,875,000	\$ 2,361,900	0.94%
50%	\$ 1,113,875	\$ 4,735,875	\$ 6,875,000	\$ 2,139,125	0.86%
60%	\$ 1,336,650	\$ 4,958,650	\$ 6,875,000	\$ 1,916,350	0.77%
70%	\$ 1,559,425	\$ 5,181,425	\$ 6,875,000	\$ 1,693,575	0.68%
80%	\$ 1,782,200	\$ 5,404,200	\$ 6,875,000	\$ 1,470,800	0.59%
90%	\$ 2,004,975	\$ 5,626,975	\$ 6,875,000	\$ 1,248,025	0.50%
100%	\$ 2,227,750	\$ 5,849,750	\$ 6,875,000	\$ 1,025,250	0.41%

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OCIP Benefits – Coverage Control

- Known coverage without surprises
 - No surprise gaps in coverage
 - No surprise exclusions
 - Limits
 - Higher limits
 - Known limits



OCIP Benefits - Claims Control

- Owner is first named insured...not an additional insured on the contractor's policy
- Owner is carrier's client
- One policy is covering the entire project
 - Consistent claims handling
 - Avoid multiple claims handlers
- High emphasis on claims management
 - Positive claims experience = direct financial benefit to Owner
 - Broker/Administrator provides additional claims advocacy



OCIP Benefits – Reduction of Cross Litigation

- ❑ Large, complex claims can get very messy as multiple involved parties try to avoid blame
- ❑ With multiple insurance policies cover a job, insurance carrier attorneys will cross complain against others involved to avoid responsibility
- ❑ OCIPs provide one policy, covering all parties
 - No cross litigation
 - Much smoother claims process



OCIP Benefits – Emphasis on Loss Control

- Benefits of loss control
 - Everyone goes home at night
 - Avoids project delays
 - Avoids negative public relations
 - Avoids costly claims payout & litigation
 - Direct financial benefit to owner
- OCIP Loss Control
 - Another set of eyes
 - Incentive to be safe



OCIP Benefits – Emphasis on Loss Control

Major Factors Affecting Site Safety

Lack of Communication/
Communication Breakdown

Unprepared Contractors

Contractors not meeting OCIP
requirements

Jobsite Housekeeping

OCIP – Lessons Learned

A Public Entity Perspective

- ❑ Cost Savings
- ❑ Coverage Control
- ❑ Claims Control
- ❑ Reduction/Elimination of Cross Litigation
- ❑ Emphasis on Loss Control



Join the Revolution!

- ❑ Benefits of “Controlled” Programs are numerous and significant
- ❑ Owner Controlled Programs deliver those benefits to the Owner not the contractor
- ❑ OCIPs now available for large and small projects
- ❑ If you have an upcoming construction project...

JOIN THE REVOLUTION TODAY!



If you have an upcoming project...



**KEEP
CALM
AND
JOIN THE
REVOLUTION!**