



Construction Insurance Explained

A Guide to Owner–Controlled and Contractor–Controlled Insurance Programs

Insuring all of the risks associated with large-scale construction projects is a complicated business. The typical approach requires each party to procure and maintain separate coverage. Risk is then pushed downstream – from owners to general contractors, and from general contractors to subcontractors – through contractual indemnifications, contractually mandated minimum insurance requirements, and additional insured provisions.

Because of the number of policies and insurers involved, this approach is often more expensive, lacks transparency, and can create the potential for unforeseen liability gaps. Some parties may have inadequate limits, gaps in coverage, or no insurance at all. Moreover, because there are multiple insurance companies covering one project, each claim has the potential to cause costly and time-consuming cross-litigation.

There is a better way, one that covers everyone, offers an opportunity to save on premiums and secure better coverage terms and limits: an owner–controlled insurance program, OCIP, or a contractor–controlled insurance program, CCIP.

The biggest difference between the two is control.

- A CCIP is a policy purchased (and controlled) by the general contractor to cover liability on a construction project, or across multiple, ongoing projects.
- An OCIP is controlled by the property or project owner and, like a CCIP, provides comprehensive liability coverage on a project.

The policyholder in control is responsible for the premiums, as well as any deductibles or self-insured retentions.



7 Key Advantages of Using an OCIP or CCIP

Potential cost savings. OCIPs and CCIPs allow project owners and GCs to avoid the costs associated with subcontractors who carry overlapping insurance coverage as well as markups by subs and vendors who would otherwise pass their insurance costs onto them. The savings, depending on various factors, could easily amount to 20% or more.

Peace of mind. OCIPs and CCIPs consolidate insurance policies into one, uniform insurance program, guaranteeing owners and GCs that everyone on the job is adequately covered. Project owners and GC no longer need to worry about the availability or adequacy of insurance coverage on subcontractors on the job site, differences in policy limits and deductibles, or liability that may arise if a contractor allows its insurance coverage to lapse. The risk of being underinsured becomes far less significant under either an OCIP or CCIP.

Streamlined claims handling. OCIPs and CCIPs facilitate more efficient and simplified claims processing. Under most OCIPs or CCIPs, a single insurance company is the control point for reporting claims, conducting investigations, and making payments. With one insurer, claims settlement procedures are more consistent.

Reduced litigation. OCIPs and CCIPs can reduce potential litigation and disputes between insurance companies. In a traditional insurance arrangement, where everyone on a project purchases their own coverage through separate insurance companies, there is a greater chance of lawsuits being used to settle accident and injury claims. OCIPs and CCIPs help eliminate any incentive for litigation because there's just one insurer.

Access to contractors. OCIPs and CCIPs give project owners and GCs greater flexibility when selecting contractors, because a sub's ability to meet minimum insurance requirements becomes less of a factor. As a result, the total pool of contractors available to a project owner or GC is expanded.

Safety initiatives. OCIPs and CCIPs allow for the development of a centralized safety program covering the operations of all contractors and subcontractors. This, in turn, can improve overall workplace safety for the parties involved in a project.

Length of coverage. OCIPs and CCIPs cover the life of a project plus an extended, completed operations period.

What's Covered by an OCIP or CCIP?

OCIPs and CCIPs typically bundle several key coverages to protect the property owner, GC and other parties:

Commercial General Liability Insurance: This mainstay policy is designed to cover a wide range of liability risks, including third-party injuries on the worksite and property damage caused by workers on the project.

Workers' Compensation Insurance: Another mainstay that's required in most states and is designed to cover lost wages and the cost of treatment associated with work-related injuries and illnesses. When included in an OCIP or CCIP, it will cover all enrolled contractors and subcontractors on your project.

Builder's Risk Insurance: Designed to cover damages to the building under construction caused by such things as accidental fires or severe weather events.

Professional Liability Insurance: Covers against losses resulting from errors in judgement and other professional mistakes by named insureds.

Umbrella Insurance: The liability coverage limits offered by many commercial insurance policies are not always high enough to fully cover commercial enterprises against all of their potential risks. To ensure that you have a sufficient amount of liability coverage, you may want to boost your coverage with umbrella coverage.



Additional Coverage You'll Want to Consider:

The following policies are typically not covered by OCIPS or CCIPs and would therefore be the responsibility of your contractors and subcontractors:



Commercial Vehicle Liability Insurance: Big construction projects typically require the use of specialty construction vehicles. These vehicles should be covered under a commercial vehicle insurance policy. In fact, any vehicle you use for your business needs this version of vehicle insurance.

Commercial Property Insurance: This policy covers losses or damages to the commercial property (such as tools and machinery) used on-site by all contractors and subcontractors named on your policy.

Inland Marine Insurance: This policy is designed to cover tools and machinery while they are being transported to and from the job site.

Pollution Liability Insurance: Covers the costs associated with chemical spills, the emission of toxic gases and fumes, and other pollution-related incidents that may occur while work is under way on your project. This policy also may cover costs associated with lawsuits brought about by anyone suffering an illness or injury related to a pollution claim, as well expenses related to clean-up.

Implementing an OCIP requires real expertise. There is no “one-size-fits-all” model, and each program needs to be properly analyzed and tailored to meet a project’s specific needs. At The Mahoney Group, we will take the time to walk you through the ways you can protect your business and its projects.

Ready to Start? Contact Us Today

480-730-4920
construction@mahoneygroup.com
mahoneygroup.com

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Whatever Lies Ahead**