



## **Controlled Insurance Programs on Construction Projects**

By Edgar Alden Dunham and IV | Monday, September 23, 2019

Controlled insurance programs, sometimes called WRAPs or CIPs, have been around for years. But while their use in the past was generally limited to very large projects, now they are being utilized much more widely on projects of much more moderate size.

CIP stands for controlled insurance program. CIPs are generally project-specific insurance programs typically combining general liability and workers compensation insurance. The two types of CIPs are OCIPs and CCIPs. A CIP can be owner controlled, in which case it is called an OCIP, or it can be contractor controlled, in which case it is called a CCIP. The purpose of the CIP, in either case, is to lower the cost of a project by avoiding the expense of each participant bringing the cost of its own insurance to its price to do the work.

Under a typical CIP, the owner, the general contractor and the participating subcontractors will all be covered under the CIP. At the same time, those covered will not be covered under their regular insurance policies for work on the project covered by the CIP, thus entitling the participants to reductions on their regular policies. Because they will not have the normal expense of their regular insurance, the bids or negotiated prices from the general contractor and the participating subcontractors will be correspondingly lower than they would otherwise be if those entities were supplying their own insurance. By combining all of the coverage, economies of scale lower the ultimate cost of the premium and reduce the likelihood of litigation over insurance coverage. The lower bids and the lower ultimate cost of the insurance result in a lower overall cost to the project.

CIPs are high-deductible plans, with a loss reserve based on the estimated number of likely claims. Premiums can change over the life of a project depending upon the number of persons actually working and other similar factors. The loss reserve is the maximum amount the purchaser can be held liable for. The estimate for the loss reserve takes into account the size and duration of the project as well as its type and the claims history of the parties involved. If, at the end of a project, the dollar value of the claims on the project is less than what was estimated and there is an amount left in the loss reserve (the savings), it is returned to the party that funded the loss reserve. Because an emphasis on safe construction practices can substantially lower the likelihood of accidents and injuries, and the general contractor or construction manager is typically in the best position to establish and enforce the use of safe construction practices on a project, it is not unusual to have a savings bonus arrangement, where the savings are divided between the owner and the party implementing the CIP in order to incentivize safe construction practices.



The advantage of a CIP is the ultimate reduction in overall cost to the owner, which is achieved through the lower bids for work that do not include separate insurance costs for each bidder and the economies of scale achieved by having all of the insurance under one policy. A secondary benefit is fewer legal battles over whose carrier is covering any personal injury or worker compensation claims that may arise. Finally, projects that include a bonus provision will likely have fewer injuries because of the incentive to avoid claims.

The disadvantage of a CIP, particularly to a subcontractor, is the administrative burden. Subcontractors need to alert their own carriers that they will not be covered under their regular policies when working on a CIP project. There are usually other administrative hurdles as well. Typically, contractors' workers may have to take drug tests and register with a CIP administrator before being permitted on the job. They may be required to take physicals or even be subjected to background checks. On the other hand, they will typically be entitled to refunds on their regular policies for the time and effort spent on CIP projects.

At the end of the day, whether a CIP project is good or not is open to debate, but CIPs are becoming much more commonly used in construction, and contractors, developers and owners should know about them.