

The Regents of the University of California



Analysis of the Master University of California Controlled Insurance Program for construction projects with values over \$25,000,000

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The University can achieve cost savings from 1-3% of total construction value. With savings up to 35% compared to the cost of traditional insurance, which includes an immediate 15% premium reduction at inception of project. Plus the potential for additional savings at project close-out.

Introduction

The University of California (UC) faces a myriad of risks relating to construction of new facilities as well as improvements to existing facilities. The level of risk varies with the size and type of a construction project. Even though contractors perform the work, UC is still exposed to potential claims arising from the construction operations and defects.

UC transfers this risk through indemnification language in the construction contract. Additionally, UC requires contractors to provide certain insurance coverage to protect the interests of both the contractor and UC for claims arising from the work.

While the use of this approach is commonplace, it does have its drawbacks. When the contractor provides the insurance, UC pays for this coverage through costs embedded in the contractor's bids. But there is no guarantee the contractor's insurance will be available to UC when a claim arises. Reasons for this include:

- Limits of the policy may have been depleted by claims arising from the contractor's other projects.
- Policy may contain exclusions voiding coverage for a specific type of claim.
- Coverage may be cancelled prior to the claim.
- Insurer may become insolvent prior to the claim.
- Insurer may refuse to protect UC, even though UC is endorsed on the policy as an additional insured.

To provide better protection for UC, the University of California Controlled Insurance Program (UCIP) was developed by Office of Risk Services as a Master Program for insuring risks on UC construction projects. In addition to providing better coverage, the UCIP is a cost savings initiative that can effectively reduce the cost of construction.

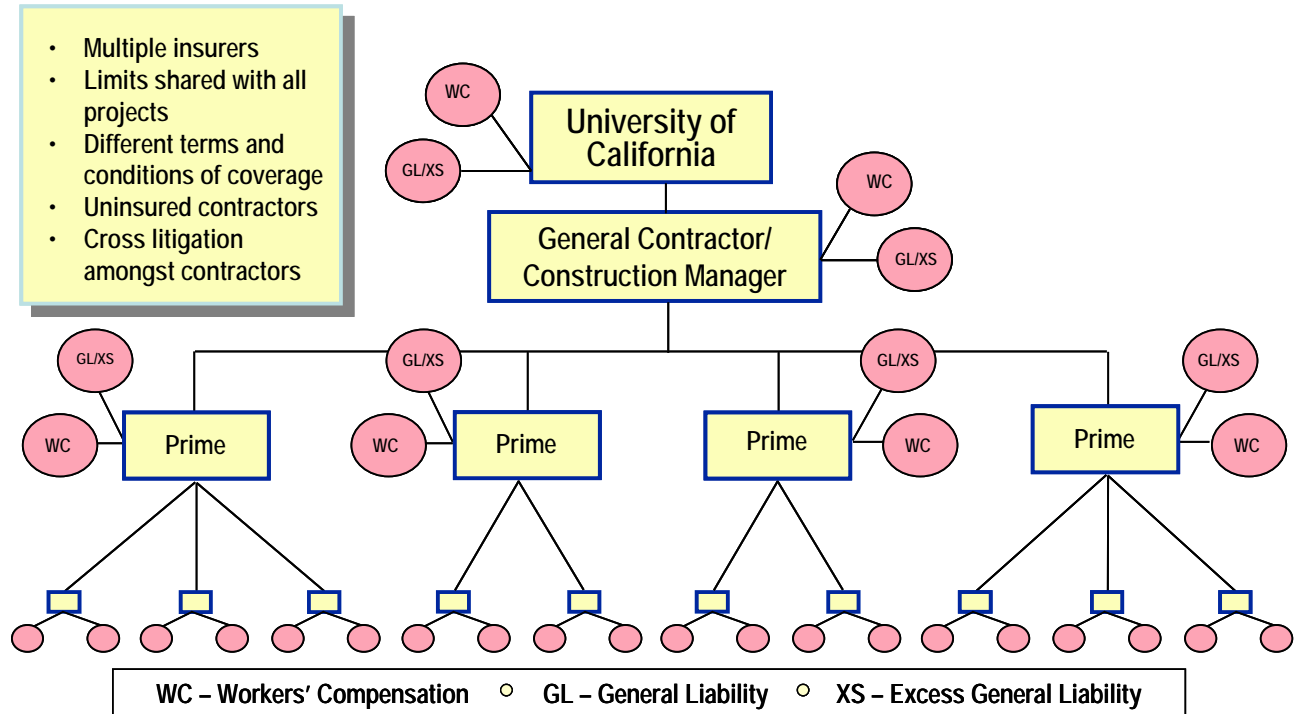
What is the University of California Controlled Insurance Program – UCIP?

The University of California Controlled Insurance Program (UCIP) is a single insurance program, purchased and controlled by UC for its construction projects. It provides uniform and consistent coverage for Workers' Compensation and General and Excess Liability for all contractors performing work at the project site. In contrast, the approach currently being widely used at UC requires all contractors and all subcontractors to each provide their own insurances; each contractor buys insurance at different times, at different rates, from different insurance carriers, and with different terms and conditions of coverage.

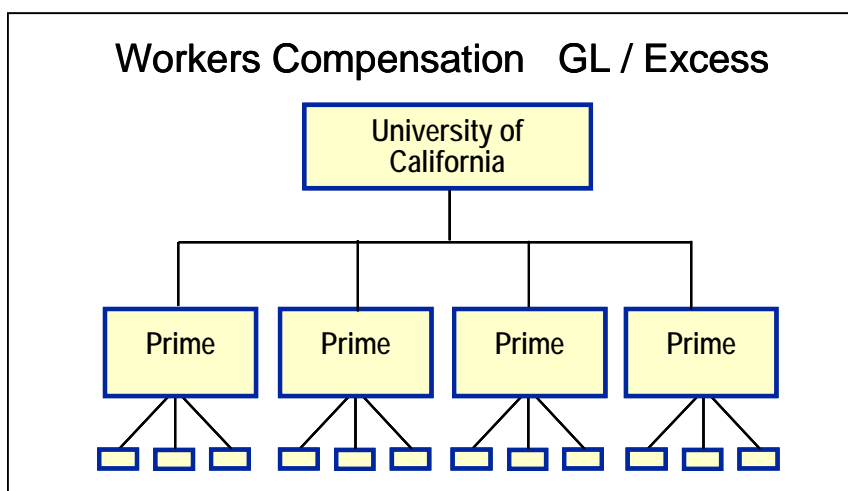
The controlled insurance program concept has been in use for the past 40 years, but has only recently, in the past 10 years, received widespread understanding and acceptance. The UCIP is

designed specifically for UC for all projects with construction value over \$25,000,000, which is the threshold at which immediate cost savings to the Project budget can be realized.

Traditional Insurance Program



UCIP Program



- Everyone insured under one program
 - Limits dedicated to the project
 - Higher limits and broader coverage
 - Uniform and consistent coverage for project duration
 - One insurance program responds to all claims

What are the Benefits of the UCIP?

Cost Savings

- Savings of up to 35% compared to the cost of traditional insurance, this includes an immediate 15% premium reduction at inception of a project.
- Favorable pricing and terms can be achieved by pooling the risks under a single program and purchasing insurance in bulk, compared to what each contractor may obtain individually.
- Reduction in cost of construction as a result of contractors removing their insurance costs (which include overhead and profit mark-up) from their bids.
- An additional savings at close-out of up to 2% of construction value can be achieved with favorable loss experience that can result from enhanced safety focus provided with the UCIP.

Control of Insurance

- UC has control over the insurance costs, whereas with contractor-provided insurance UC must rely on what the contractors purchase and charge back to the project (this will include a mark-up for this expense line item).
- The security of knowing UC is being properly protected and that insurance is in place and is maintained for the duration of the project. Versus with contractor-provided insurance UC may not have knowledge when a contractor's insurance is terminated, lapses, the limits are exhausted, or the insurance carrier becomes insolvent.
- UC secures the insurance for the entire project thus providing for uniform and consistent coverage for the project duration. Under contractor-provided insurance, each contractor and subcontractor secures their own insurance in which the terms and conditions may vary or could change during the course of the project.

Enhanced Insurance

- Higher limits and broader coverages than what can be obtained by most contractors.
- Limits of insurance are dedicated to the UC project instead of UC sharing limits with the contractor's other projects as is the case with contractor-provided insurance.
- Liability coverage remains in place 10 years after project completion for construction defect claims.

Better Claims Administration and Improved Loss Experience

- UC can direct claim activities for losses occurring on the project. In contrast, with contractor-provided insurance, the contractor's insurance carrier controls how the claim is handled and directs settlement negotiations.
- Eliminate cross complaints and reduce litigation amongst trades. With the UCIP, the contractor and all subcontractors are all covered under one single program and there is no need for finger pointing or attempts to shift responsibility regarding whose insurance should respond to a claim.

- Claims can be responded to and resolved more quickly under a single insurance program for the entire project; with contractor-provided insurance, each contractor's insurance will have its own claims adjusting firm, reporting protocol, and settlement philosophy.
- Enhanced and coordinated safety for all contractors leading to fewer accidents on the project site and improved loss experience.
- Claims arising from the construction project will not adversely affect the loss experience of the University's insurance program for its business operations.

Improved Public Relations

- Having the project under one single insurance program enables claims to be settled without delay which reduces the potential for disgruntled claimants.
- UC can direct claims activities to ensure resolution and eliminate the potential for negative publicity. Under contractor provided insurance, UC is relying on the contractor's insurance carrier to resolve claims on our behalf.

Historical Cost Savings

In the past, two UC campuses have utilized a similar program on a few projects; the following chart illustrates the cost savings achieved. This former program only provided savings at close-out, where the UCIP now offers cost savings at inception as well as potential for additional cost savings at project close-out.

| | UC Davis | | UC Berkeley | | |
|---|---------------|---------------|---------------|--------------|--------------|
| | EB | SESP | CITRIS | DOE | EAL |
| Construction Value | \$ 33,392,084 | \$233,521,989 | \$103,202,853 | \$43,499,143 | \$38,866,918 |
| Fixed Premium | \$505,868 | \$4,595,606 | \$1,303,161 | \$602,832 | \$588,666 |
| Loss Aggregate Premium | \$660,719 | \$4,985,908 | \$2,047,003 | \$987,549 | \$983,235 |
| Total | \$ 1,166,587 | \$9,581,514 | \$3,350,164 | \$ 1,590,381 | \$1,565,170 |
| Status | Pending | Open | Open | Closed | Closed |
| Funds Returned at Project Closure | \$ 340,000 | | | \$ 648,618 | \$194,628 |
| Project Savings as a Percentage of Construction Value | 1.02% | | | 1.49% | 0.50% |

| | |
|---------------------------------|--------|
| Loss Ratio Average For Program: | 17.49% |
|---------------------------------|--------|

As of 10/20/2009

Recommendation

While it is the contractors that are performing the work at our project sites, construction operations pose dangerous and high risk exposures for the University which can result in great financial loss. This can occur when contractor-provided insurance is insufficient or unavailable to the University. It is critical that the University interests are properly protected.

With the tightening of budgets and reduction of funds, measures must be taken that can effectively create savings to reduce the cost of construction.

The UCIP enables the University to not only secured enhanced protection for risks on construction projects, but also achieve cost savings. It provides an immediate savings of up to 35% compared to the cost of traditional insurance.

The UCIP presents a change in how the University insures risks on its construction sites. An increase in administrative work is not expected, but rather a change in the work process. This insurance concept has been in use for the past 40 years and has proven to provide better protection and cost savings over that of traditional insurance. The master program concept has been successful at the University with the implementation of the Master Builder's Risk insurance program back in 1989 which also served to provide broader coverage at reduced cost compared to what contractors provide.

This single insurance program concept has received widespread understanding and acceptance over the years that even contractors are offering their own "Contractor Controlled Insurance Program" (CCIP) in which the contractor reaps all the savings. The UCIP would enable the University to benefit from the savings.

Based on the benefits reflected above, the Office of the President, Office of Risk Services recommends the utilization of a Master UCIP for all construction projects with construction values over \$25,000,000. The UCIP serves as a risk management strategy that not only provides better protection for the University, but also enables reduced construction cost through the cost savings that can be achieved.

10-20-09