

Can You Take a Look at This Contract and Tell Me What the Insurance Requirements Should Be?

March 11, 2010
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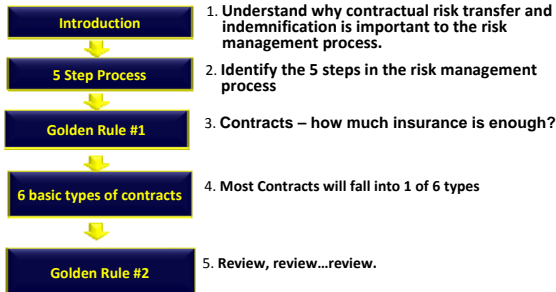
John G. Chino, ARM-P
Arthur J. Gallagher & Co.

Chaves NM County claim

- Worker on ladder at admin. building



Learning Objectives



FSR- Section 2

Exam Format

- Multiple Choice
- One-Hour Time Limit
- 70% Needed to Pass
- Pass/Fail
- Results Returned in 4–6 weeks

The Nature of Risk

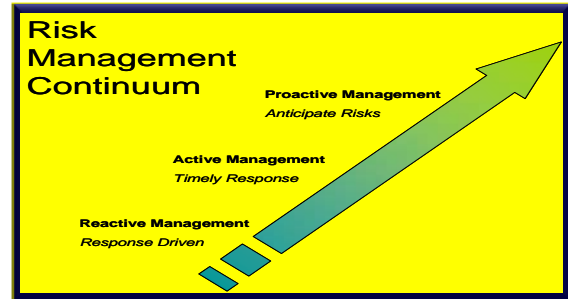
Types of Risk

PURE - Chance of loss only, usually these are thought of as “insurable” risks.

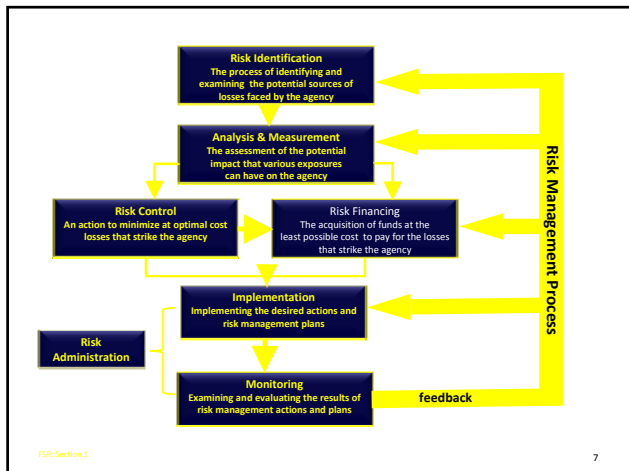
SPECULATIVE - Chance of loss or gain – usually these are thought of as business or market risks.

GAMBLING - Chance of loss or gain where the probabilities, odds favor a loss. You create the risk.

Proactive vs. Reactive Risk Financing



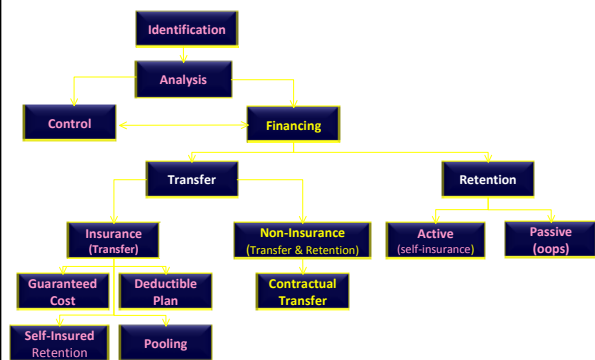
FSR: Section 1



FSR: Section 1

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Funding the Agency's Risks



FSR: Section 3

Funding An Agency's Risks

Methods of Transfer

Non-insurance:

- Contracts—Indemnity/hold-harmless agreements
 - 3 Levels of protection
- Named as an additional insured on other's policy
 - Obtain correct endorsement
- Waiver of subrogation in Contract
 - Obtain endorsement for Worker's Comp
- Monitor—Obtain Certificates of Insurance with requested endorsements and a list of policy endorsements

FSR: Section 3

Funding An Agency's Risks

Methods of Transfer (Continued)

Insurance:

- A relatively small known cost is substituted for the potential (unknown) of a large cost.
- Types of coverage and limits for various risks to follow.

Golden Rule #1

- Insurance amounts are NOT based on Contract Size (although very large contracts tend to be high hazard, too).
- They are based on Hazard/Risk associated with contract work
- Examples of High Risk: Blasting/Trenching
 - Communications/Computers
 - Aviation (Helicopters)
 - Cranes/Rigging

Contractual Risk Transfer in the Risk Management Process

How does Risk Financing apply to the Risk Management Process?

Risk Financing is used to address exposures identified and analyzed in steps one and two (Identification & Analysis) of the Risk Management Process.

FSR: Section 1

Contractors

TYPE of COVERAGE	LIMITS
Commercial General Liability (CGL)	\$1,000,000 per claim \$2,000,000 Aggregate
Workers' Compensation	Statutory (EL:\$1,000,000)
Business Auto Liability	\$1,000,000 or \$2,000,000
Excess Liability (Umbrella)	\$2, 3 or \$5,000,000
Course of Construction / Builder's Risk	Project Value

Maintenance/Service Contracts

TYPE of COVERAGE	LIMITS
Commercial General Liability (CGL)	\$1,000,000 per claim \$2,000,000 Aggregate
Workers' Compensation	Statutory (EL:\$1,000,000)
Business Auto Liability	\$1,000,000
Pollution (optional)	\$2, 3 or \$5,000,000

Professional Services

TYPE of COVERAGE	LIMITS
Commercial General Liability (CGL)	\$1,000,000 per claim \$2,000,000 Aggregate
Workers' Compensation	Statutory (EL:\$1,000,000)
Business Auto Liability	\$1,000,000
Professional Liability or Error's & Omissions	\$1, 2 or \$3,000,000

Leases

TYPE of COVERAGE	LIMITS
Commercial General Liability (CGL)	\$1,000,000 per claim \$2,000,000 Aggregate
Property (Optional)	Based on Value at Risk
Equipment, Boiler & Machinery	Based on Value at Risk

Environmental Contractors

TYPE of COVERAGE	LIMITS
Commercial General Liability (CGL)	\$1,000,000 per claim \$2,000,000 Aggregate
Workers' Compensation	Statutory (EL:\$1,000,000)
Business Auto Liability	\$1,000,000 or \$2,000,000
Excess Liability (Umbrella)	\$2, 3 or \$5,000,000
Contractor's Pollution Liability	\$2, 3 or \$5,000,000

Permits/Special Events

TYPE of COVERAGE	LIMITS
Commercial General Liability (CGL)	\$1,000,000
Property	\$25,000
Liquor Liability	\$1,000,000 or \$2,000,000
Excess Liability (Umbrella) rarely	\$2, 3 or \$5,000,000

Activity in Contract:	General Liability	Automobile Liability	Workers' Comp.	Errors & Omissions	Builder's Risk	Pollution Liability	Professional Liability
Advertising, publication	1		(Statutory)				
Aircraft, use, ownership or maintenance of	10 Aviation		(Statutory)				
Ambulance Services	1	5	(Statutory)				
Animals, care, use of, maintenance of	1		(Statutory)				
Aquatics, Facility Use	5	1	(Statutory)				
Athletic Events	1	1	(Statutory)				
Carnival, festival rides and attractions	5	1	(Statutory)				1
Claustics, use or handling of	3	1	(Statutory)				1
Child Care	5	1	(Statutory)				
Construction Projects	5	1	(Statutory)	1	Value	1	
Construction/remodeling type projects	1	1	(Statutory)				
Docks/wharves, use, ownership or maintenance	5	1	(Statutory)				
Electricity, use of, electrical work, repair	3	1	(Statutory)		Value		
Emission or discharge of noxious material	5	1	(Statutory)			5	
Explosives, use of, transportation, storage	10	1	(Statutory)		Value		
Flammables, usage of	5	1	(Statutory)			1	
Food, service, sales	3	1	(Statutory)				
Medical services, skilled	3	1	(Statutory)	3			
Miscellaneous services (e.g. instructors)	1	1	(Statutory)				
Nuclear/radioactive material, use of	5		(Statutory)				
Pumbing/sewer, maintenance, construction, repair	3		(Statutory)		Value		
Professional services, other than medical or design	1	1	(Statutory)	1			1
Professional services: engineering, architectural	1	1	(Statutory)	1	Value		1
Pyrotechnic Displays	5	1	(Statutory)				
Railroads, maint. of, operating near	Railroad Protective						
Toxics, use or handling of		1	(Statutory)				1
Trucking, transportation, solid waste	5	5	(Statutory)			1	
Tunneling, excavation	10	1	(Statutory)		Value		
Watercraft, use, ownership, maintenance of	1		(Statutory)				
Weapons, use, ownership or maintenance of	5	1	(Statutory)		Value		
Welding, cutting with torch	(5)	1	(Statutory)				

Minimum coverage in millions.

Golden Rule #2

- We recommend that you review Contracts and Purchase Orders with your risk management Team: Attorney, Broker, Risk Management Consultant, JPA staff
- Annual basis

The Risk Management Process

Risk Financing - The acquisition of funds, at the least possible cost, to pay for the losses that strike the agency.

Transfer –

Insurance – Additional Insured

Non-Insurance –

Contracts/Indemnity

Waiver of subrogation

Verification: Certificates of Insurance

Eureka!!

- WALNUT CREEK GAS PIPELINE EXPLOSION CASE
- \$90 Million Settlement – Explosion Accident
- Pipeline Explosion Cases settle for over \$90 million dollars; GJEL client receives largest single death award of \$10.65 Million.
- One of the most tragic industrial accidents in California history occurred when a backhoe punctured an underground fuel pipeline causing an explosion and fireball that burned for nearly a week. The explosion killed 5 workers and seriously injured a number of others, as well as causing property and equipment damage. About twenty separate lawsuits were filed in Contra Costa County and were coordinated by the State Judicial Council into one proceeding entitled the "Gas Pipeline Explosion Cases".
- Ultimately, over \$90 Million dollars was paid by a number of defendants. The family of the construction foreman received the largest single death award totaling \$10.65 Million. This award represents the largest settlement or verdict for a wrongful death in the history of Contra Costa County.

If you would like a copy of this presentation, please email

Bob@CertifiedRiskManagers.com

For more detailed Contractual Risk Transfer information, you may download our PARMA workshop information at

www.parma.com/documents/09RMC/E5_Handout.pdf