Bonding and Insurance Workshop

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Merriwether & Williams
Insurance Services
... Of Like Minds
What is to Be Gained?

- Practical Knowledge of insurance and bonding
- How insurance and bonding protects you and others
- How loss control / safety and risk avoidance help to keep your insurance cost competitive and increase your business opportunities
- How critical your insurance/surety broker is to your business team, and how to select the best suited for you
- What does it take to build your bonding capacity
In Summary

- **Insurance**
  - Insurance needs specific to contractors and construction
  - Caltrans Standard Insurance Requirements
  - Latent risk and owners need to protect themselves
  - Cost-benefit of safety and loss control
  - Carrier Ratings

- **Surety**
  - Definition and Why It is Needed
  - Different Types of Construction Bonds
  - Bonding Compliance
  - How to Qualify for Bonds
Insurance – A Practical Understanding

- **First Party Coverages**
  - Coverage for your direct losses to physical assets you own/lease and insure. Buildings, Personal Property, Tools and Equipment

- **Third Party Coverages**
  - Coverage to protect you from others who allege your negligence caused them bodily injury or damaged their property

- **Workers Compensation**
  - Compulsory (Mandatory) coverage to cover medical costs and loss wages to your workers injured on the job
What Are the Different Types of Insurance?

- Commercial General Liability (CGL)
- Workers’ Compensation (WC)
- Automobile Liability
- Contractor’s Equipment Floater
- Professional Liability (PL), also known as Errors & Omissions (E&O)
- Builder’s Risk
- Owner Controlled Insurance Program (OCIP)
- Contractor’s Controlled Insurance Program (CCIP)
Standard Insurance Requirements

- Commercial General Liability
  - Limits as stipulated by Owner or GC, never less than $1M per occurrence / $2 M Aggregate
  - Naming Owner / GC as Additional Insured
  - Coverages typically include:
    - Bodily Injury
    - Property Damage
    - Products / Completed Operations
    - Personal / Advertising Injury
    - Medical Payments
**Standard Insurance Requirements**
*(Continued)*

- **Commercial General Liability**
  - Umbrella / Excess Liability
    - Higher Liability Limits
  - Underwriting
    - Loss History
    - Scope of Work
    - Payroll or Gross Receipts
  - Exclusions
    - Watch out for limitations
      - Residential
      - Townhouse
      - Condos
      - OCIPs
Workers Compensation

- Mandated by law
- Statutory Limits by State
- Employers Liability Limits (egregious negligence)
- Underwriting
  - Loss Experience (EMR)
  - Classification of Employees
  - Payroll – Hourly Rates
- Safety Safety Safety
- Most impactful Insurance loading in bids
  - Good Experience – Competitive Advantage
  - Bad Experience – Harder to Compete
Auto Liability

- Limits as required, no less than $1M
- Should schedule for Excess Liability – Catastrophic Losses
- Seek no less than “Scheduled Non-Owned and Hired”
- Underwriting
  - Schedule of Vehicles / GVW / Values
  - Number of Employees for Non-Owned
  - Driver MVR’s
  - Consider DMV “Pull” Program
Contractors Equipment Floater

- First party protection for owned / leased equipment / tools
  - Cover for Replacement Cost Values
  - Inland Marine form covers at any location
  - May include earthquake
  - Must carefully schedule and update all equipment to be covered
- Underwriting
  - Losses
  - Storage Security
  - Values X Rate
Professional Liability or Errors & Omissions

- Needed for any form of Construction Management / Consulting
  - Design and/or Engineering
- Limits dictated by Owner or Prime Consultant – No less than $1M per Occurrence
- Can be project specific or “practice” policy
- Claims made – when coverage expires, it expires retroactively
Builders Risk

• Coverage for property damage to a structure under the course of construction including loss or damage to materials intended to be part of the building
  ◦ Sometimes covered by Owner/GC under a project blanket limit
  ◦ Can purchase a blanket policy to apply to all work throughout the policy period
  ◦ Project specific coverage

• Underwriting
  ◦ Loss History
  ◦ Construction Values – Hard & Soft Costs
Builders Risk (Continued)

- Read contract to confirm who is responsible for procuring and who is responsible for deductible

- What specific coverages are required: Earthquake? Flood? Water Damage? Mold?

- Make sure you are part of “Named Insured” if others purchase coverage

- Contract may stipulate waiver of subrogation disallowing the Builders Risk Carrier from pursuing responsible party
OCIP’s & CCIP’s or Wrap Ups

- Project specific coverage being provided by Owner – OCIP or GC – CCIP
  - Coverages which may be provided
    - General Liability, Builders Risk, Workers Compensation
- Evidence of Offsite General Liability and Workers Compensation still required
- Coverage only applies to “on-site” work
- Read bid specs and contract closely
  - Do you bid with or without insurance loading
  - Are you responsible for any deductibles
  - Carefully calculate your normal insurance load as it may be deducted from your bid, get help from your broker
- A Separate Training Workshop will be held on Caltrans OCIP’s
Any Questions?
Break

10 minutes
Insurance and Bonding
Surety vs. Insurance

- Apples and Oranges
  - Cannot Compare
- Insurance expects loss
- Surety expects **no** loss
- You purchase Insurance
- You must qualify for surety bonds
Why Do You Need Bonding?

- Required to bid on all public work
- Often required by private owners/GCs
- Increased credibility
- Another relationship to assist your firm’s development
What is a Surety Bond

- A three party agreement that guarantees a contract or agreement
  
  *Example: Contract between you and a third party*

- Protects another party
- You cannot buy it
- You must qualify for it
Who are the three parties

- **Principal**: The party that is asked to provide the bond.

- **Owner**: The party that is protected by the bond.

- **Surety**: Insurance company that writes the bond.
Contract Bonds

- Contract bonds guarantee completion of a contract to the owner’s satisfaction
  - Components
    - Bid - guarantees contractor will enter into contract at bid price, if low bidder
    - Performance - guarantee completion of the contract
    - Payment – guarantees laborer, suppliers, and subcontractors will be paid
    - Maintenance or Warranty Bond – guarantees against defects in workmanship or materials for a stated time after acceptance of work
Before You Bid

- Review your specifications and bond forms to understand your contractual requirements
- Make sure you can qualify for the required bond before you begin the estimating process
- Signed and executed bonds by a surety company must be submitted as part of your bid
  - Be prepared to provide data required by the surety company
Things You Need to Know About Surety Bonds

- Surety bond producer/agent/broker
- Surety bond producer/agent/broker should have adequate markets
- Surety companies (markets) should be listed on the Department of Treasury Circular 570 and A.M. Best A- rated
- Cost of bonds can range from 0.5 percent to 3 percent or more
Things You Need to Know About Surety Bonds (Continued)

- Cost and bondline is based on the surety underwriter’s evaluation ~

The Four C’s:
  ◦ Character
  ◦ Capacity
  ◦ Capital
  ◦ Conditions of the Times

- The loss or deterioration of any of these factors will cause surety concerns and result in reduced bonding capacity
**Indemnification**

- General Indemnity Agreement
  - Surety will expect the indemnity of both your company and you personally
  - May include your company’s assets, home, car, and any other assets
Surety Underwriting

- Sureties underwrite to have no losses

- Surety’s Prequalification Process
  - In-depth look at a Person’s Finances – Company and Personal
  - Experience for the required obligation
  - Ability to meet obligations
  - Necessary resources to perform the obligation
What you need to do

- Find the right broker
  - Call various surety agents
  - Interview
    - Ask Questions:
      - Do you have similar businesses in your portfolio?
      - How many surety markets do you represent?
      - What is the premium rate for my type of business?
Merriwether & Williams Insurance Services
Bond Submission Checklist for
CA. License No. 0C01378

Client: ____________________________ Telephone #: ________________

Date of Submission: 

_________ Copy of Contract (if applicable)

_________ Contract Bond Request Sheet

_________ Cost Breakdown Sheet

_________ Surety Questionnaire

_________ Work on hand schedule

_________ Current personal statement(s) of principal owner(s)

_________ Last three (3) year-end statements or for those fairly new in business opening balance sheet or last fiscal year end statement

_________ Most recent interim financial statement

_________ Resumes of key personnel

_________ Reference letters from previous projects

Caltrans Toll Bridge Small Business Education and Training Program
What Sureties look for

- Professional and Accurate Presentation of Underwriting Documents
Benefits of Bonding

- **Professional References**: Surety team knows accountants, bankers and lawyers who understand
- **Business advice**: Surety team can share their personal experience on issues
- **Funding Verification**: The surety will insist on knowing the source and adequacy of funds before it will commit to bonding a project.
- **Contract Reviews**: Many sureties perform contract reviews to identify contract terms, anomalies in the specifications or bond forms that may be onerous or add undue risk to the project.
- **Continuity Plans**: Sureties can assist the contractor with a continuity plan to protect the contractor’s family, estate, partner, employees and assets.
- Thorough Investigation of Claims
- Legal Defense
Declination

- If declined for a surety bond:
  - Request letter from Surety Company stating why
  - Work on improving situation
Maintain Bonding Relationships

- Do not hide problems; confront issues directly
- Share all your job cost information
- Solicit assistance from broker and surety company
- Maintain open communication, particularly on difficult projects, so surety is aware of potential disputes
Surety Bond Resources

- Bonding Programs
  - City and County of San Francisco
  - Port of Oakland
  - City of Los Angeles
  - Los Angeles Community College District
  - San Diego Country Airport Authority (2008)

- Programs that can assist you with Collateral, Funds Control, Financial Statement Subsidy
Any Questions?
Summary

In this class, you learned:

- The definition of insurance and bonding
- Why you need insurance and bonding
- The different types of insurance programs and when they are required
- The different types of construction bonds
- How surety companies qualify contractors for a bonding line
- How to purchase insurance and qualify for bonding
- How to maintain good insurance and bonding relationships