



THE SAN FRANCISCO-OAKLAND BAY BRIDGE SEISMIC SAFETY PROJECTS

CALTRANS BAY AREA TOLL AUTHORITY CALIFORNIA TRANSPORTATION COMMISSION

Bonding and Insurance Workshop

Presented by
Ingrid Merriwether,
President & CEO



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

A photograph of construction workers on a site. One worker in the foreground is wearing a red shirt and a hard hat, looking towards the right. Other workers in safety gear are visible in the background. The scene is outdoors with a clear sky.

Small Business
Education and
Training Program

SMALL BUSINESS

Any Questions?



THE SAN FRANCISCO-OAKLAND BAY BRIDGE SEISMIC SAFETY PROJECTS

CALTRANS BAY AREA TOLL AUTHORITY CALIFORNIA TRANSPORTATION COMMISSION

Break

10 minutes



THE SAN FRANCISCO-OAKLAND BAY BRIDGE SEISMIC SAFETY PROJECTS

CALTRANS BAY AREA TOLL AUTHORITY CALIFORNIA TRANSPORTATION COMMISSION

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?

Bond Underwriting Documents

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

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
 - Los Angeles Unified School District (2008)
 - San Diego County 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