

# Understanding owner-controlled insurance programs (OCIPs)

Construction projects often involve an array of contractors and subcontractors. Having these stakeholders operate under distinct insurance programs can create a patchwork of policies that may lead to coverage inconsistencies and potential gaps. An owner-controlled insurance program can help project owners or developers streamline the insurance solutions covering a specific project.

Historically, individual contractors have been responsible for getting their own general liability insurance. This approach, however, may lead to inconsistencies among different policies and potential coverage gaps. Additionally, coverage gaps may only become apparent after a claim is made, leading to challenges for both the policyholder and project owner.

If a contractor is unable to cover damages or liabilities due to insufficient insurance, the project owner may be left to bear the financial burden. This can lead to disputes with insurers, project delays, and potential legal issues.

With multiple contractors involved on a project, it can also be unclear which contractor's policy corresponds to which claim, further complicating the claims process. Project owners may also need to get their own liability insurance during

construction to ensure adequate protection against potential risks. Cumulatively, these challenges could make it difficult and costly for project owners and other key stakeholders to adequately protect their contractors and business.

## Defining features of an OCIP

An **owner-controlled insurance program (OCIP)** is a type of consolidated insurance program where the project owner purchases and manages insurance coverage for all or most of the parties involved in a construction project, including general contractors and subcontractors. OCIPs are typically used for large-scale construction projects to centralize and streamline insurance coverage. Defining features include:

## WHEN TO USE AN OCIP

OCIPs may be best suited for:

- Large construction projects with budgets typically exceeding US\$25 million
- Projects with multiple contractors and subcontractors
- Owners seeking tighter control over insurance and safety

**Centralized insurance purchase:** Instead of requiring each contractor and subcontractor to obtain their own insurance, the project owner can procure a single insurance policy to cover all participants.

**Coverage scope:** OCIPs often include general liability, workers' compensation, and excess liability but can also provide general liability and excess liability without workers' compensation. Marsh can work with you on a pro forma to determine the best route for your specific project.

**Administration:** The program is managed by the project owner or an insurance broker/administrator. They help eligible parties get enrolled and can confirm that coverage is maintained throughout the project duration.

**Cost allocation:** The cost of the OCIP is typically included in the overall project budget. Contractors often provide bids excluding their own insurance costs since the OCIP provides coverage. However, there are a couple of ways for subcontractors to bid which can be evaluated with your Marsh representative.

## Key advantages of an OCIP

OCIPs can help risk managers and project owners alike better manage and maintain the safety of the job site, minimize exposures, and secure project-specific coverage. The advantages are multifold, including:

**Cost savings:** By consolidating insurance, OCIPs may eliminate redundancies in premiums, with the goal of leading to lower overall costs. Additionally, bulk purchasing power may allow for better rates than individual policies.

**Comprehensive coverage:** OCIPs allow for more uniform and consistent coverage for all parties, with the goal of reducing the risk of coverage gaps, overlaps, or potential disputes between different insurers.

**Simplified claims handling:** Centralized claims management can streamline the insurance process and help reduce disputes over responsibility.

**Enhanced safety programs:** Many OCIPs include safety initiatives and monitoring, aimed at reducing accidents and claims.

**Predictability:** Fixed insurance costs may improve budgeting and financial forecasting for the project.

**Improved contractor access:** Small or mid-sized contractors who might struggle to obtain affordable insurance can participate without the burden of securing individual policies.

## Navigating project complexity with support

Managing large, costly construction projects is no small feat, and can present several complex challenges for project owners, including:

- **Enrollment issues:** Ensuring all eligible contractors are enrolled can be challenging.
- **Exclusions:** Some smaller contractors or subcontractors may still need separate insurance.
- **Upfront costs:** Owners bear the cost of purchasing the program upfront, which might strain cash flow.

However, an OCIP can help address these challenges by providing more streamlined coverage for contractors and subcontractors under a single program, reducing administrative burdens, and minimizing coverage gaps. By consolidating insurance, OCIPs often lead to significant cost savings compared to traditional insurance models, with the goal of making the upfront investment more justifiable.

Partnering with a third-party advisor like Marsh can further facilitate the successful implementation of an OCIP, to better ensure comprehensive coverage and effective enrollment strategies and help alleviate the financial strain on project owners.

*To learn more about how an OCIP can help protect your people and project, speak with a Marsh representative.*

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