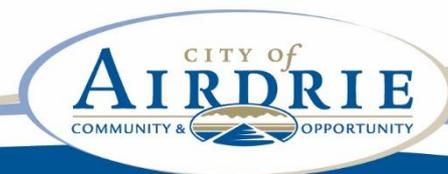


# INSURANCE & BONDING REQUIREMENTS



# OBJECTIVES

- Types of insurance coverages
- Main stream coverage
- Appropriate coverage for different agreements
- Bonding
- Usual requirements
- New trends
- Claims process

# INSURANCE ....

Two party contract	Involves transfer of risk
Duty of utmost good faith	Does not require reimbursement... Insured does not have to pay back (some exceptions apply)
Cancellable	Additional insured (what does it do?)
Premium based on losses	

# CGL – Commercial General Liability

Who is insured?	What does it cover?	Limits	Who pays premium?	Mandatory or optional?
<ul style="list-style-type: none"> <li>- Contractor or developer is named insured</li> <li>- The Owner must be added to the policy as additional insured</li> </ul> <p><b><u>NOTE</u></b> Additional Insured status to be added only to CGL, Excess or Umbrella coverage</p>	<ul style="list-style-type: none"> <li>- Injury to persons and damage to property of others, caused by and arising from the contractor's activities</li> <li>- Includes cover for Non-Owned Auto. This covers liability owed to third parties resulting from business use of vehicles that the insured utilizes but does not own (long term leased vehicles, employees using their own vehicles, etc). This is not the same as auto liability which is for owned automobiles.</li> </ul>	<p><b>\$2 Million minimum per occurrence</b></p> <ul style="list-style-type: none"> <li>- Higher limits may be required based on risk assessment of each project</li> <li>- Aggregate amount reflects maximum amount paid in any one policy period (can have multiple claims for full limits). Aggregate amounts can vary from \$2 Million and higher depending on services provided.</li> </ul>	<ul style="list-style-type: none"> <li>- Contractor/supplier</li> <li>- Premium is charged back to the "owner" through the contractor's costs</li> </ul>	<p><b><u>MANDATORY</u></b> For majority of service agreements and construction where they are either on our property or provide goods or services on our behalf</p> <p><b><u>OPTIONAL</u></b> Some service agreements such as consulting services under certain circumstances</p>

# Umbrella Liability

Who is insured?	What does it cover?	Limits	Who pays premium?	Mandatory or optional?
<ul style="list-style-type: none"> <li>- Contractor or developer is named insured</li> <li>- The Owner must be added to the policy as additional insured</li> </ul> <p><b>NOTE</b> Additional Insured status to be added only to CGL, Excess or Umbrella coverage</p>	<ul style="list-style-type: none"> <li>- Provides limits in addition to the underlying (primary) liability coverages such as: Auto, Aircraft, CGL, Pollution</li> <li>- Can give broader coverage than the primary policy (less exclusions)</li> <li>- Can also provide additional coverage not given in primary policy such as pollution coverage (the only way to know what extra coverage there is would be to review the wordings, may not reflect on the policy coverage page)</li> </ul>	<p><b>As stated in policy</b></p> <p>May include:</p> <ul style="list-style-type: none"> <li>- Auto</li> <li>- Aircraft</li> <li>- CGL</li> <li>- Watercraft</li> <li>- Pollution liability (occasionally)</li> </ul> <p><b>**Don't assume**</b> The umbrella policy will list which policies it sits over top of as it may not sit over everything</p>	<ul style="list-style-type: none"> <li>- Contractor or supplier</li> <li>- Premium is charged back to the "owner" through the contractor's costs</li> </ul>	<p><b><u>MANDATORY</u></b> Only if CGL <u>does not</u> provide adequate limits for contract</p> <p><b><u>OPTIONAL</u></b> If CGL provides adequate limits</p>

# Excess Liability

Who is insured?	What does it cover?	Limits	Who pays premium ?	Mandatory?
<ul style="list-style-type: none"> <li>- Contractor or developer is named insured</li> <li>- The Owner must be added to the policy as additional insured</li> </ul> <p><b><u>NOTE</u></b> Additional Insured status to be added only to CGL, Excess or Umbrella coverage</p>	<ul style="list-style-type: none"> <li>- Provides limits in addition to the underlying (primary) liability coverages such as: Auto, Aircraft, CGL, Pollution</li> <li>- No extra protection than what is given in primary policy</li> </ul>	<p><b>As stated in the policy</b></p> <p>May include:</p> <ul style="list-style-type: none"> <li>- Auto</li> <li>- Aircraft</li> <li>- CGL</li> <li>- Watercraft</li> <li>- Pollution liability (occasionally)</li> </ul> <p><b>**<u>Don't assume</u>**</b> The policy will list which coverages it sits over top of as it may not sit over everything</p>	<ul style="list-style-type: none"> <li>- Contractor or supplier</li> <li>- Premium is charged back to the "owner" through the contractor's costs</li> </ul>	<p><b><u>MANDATORY</u></b> Only if CGL <u>does not</u> provide adequate limits for contract</p> <p><b><u>OPTIONAL</u></b> If CGL provides adequate limits</p>

# Auto Liability

Who is insured?	What does it cover?	Limits	Who pays premium	Mandatory or Optional?
<ul style="list-style-type: none"> <li>- The contractor or developer</li> <li>- Any party operating the vehicle(s) with permission that holds a valid drivers license</li> </ul> <p><b>NOTE</b> No Additional Insured status needed</p>	Liability arising from motor vehicle accidents involving all licensed vehicles owned or operated by or on behalf of the contractor (*includes leased vehicles under long term lease – over 30 days)	<p><b>\$2 Million minimum</b></p> <p>Can request more limits depending on risk assessment of individual project</p>	Contractor or supplier	<p><b><u>MANDATORY</u></b> When an owned or short term leased vehicle of the contractor is to be used to complete the task</p> <p><b><u>OPTIONAL</u></b> If no owned/leased vehicles will be used to complete the task</p>

# Contractors Equipment

Who is insured?	What does it cover?	Limits	Who pays premium?	Mandatory or Optional?
<p>Owner of the equipment</p> <p><b>NOTE</b> No Additional Insured status needed</p>	<p>Provides coverage for direct physical loss of construction machinery and equipment</p>	<p><b>As stated in the policy</b></p>	<p>Contractor or supplier</p>	<p>Depends on risk assessment of project.</p> <p>May want to require coverage if there is specialized / expensive equipment being used for the project.</p>

# Professional Liability

Who is insured	What does it cover?	Limits	Who pays premium?	Mandatory or Optional?
<p>The firm that offers professional advice, such as:</p> <ul style="list-style-type: none"> <li>- Consultant</li> <li>- Engineer</li> <li>- Architect</li> </ul> <p><b><u>NOTE</u></b> No Additional Insured status needed</p>	<p>Claims made by third parties alleging negligence in the rendering of or failure to render professional services</p>	<p><b>\$2 Million</b> per occurrence recommended.</p> <p>Depends on risk assessment of project</p>	<p>Contractor or supplier</p>	<p><b><u>MANDATORY</u></b></p> <p>If risk assessment deems necessary</p> <p><b><u>OPTIONAL</u></b></p> <p>If risk assessment does not deem necessary</p>

# Wrap-Up Liability

Who is insured?	What does it cover?	Limits	Who pays premium?	Mandatory or Optional?
<p>All parties that are involved in the construction project</p>	<p>Liabilities arising from third party injury to persons or damage to property caused by or arising from the activities of the project</p> <p>Eliminates hold ups and “not my responsibility” as it covers the whole project and everyone who works on the project</p>	<p><b>As stated in the policy</b></p> <p>Will depend on risk exposures for each project</p> <p>Usually limits will cover the total cost of the completed project</p>	<p>Whomever took out the policy... either Owner of project or General Contractor.</p> <p>Premium is charged back to the “owner” through the contractor’s costs</p>	<p>Highly recommended for large or complex projects</p>

# Builders Risk / Course of Construction (COC)

Who is insured?	What does it cover?	Limits	Who pays premium?	Mandatory or Optional?
<p>Owners and contractors or subcontractors</p> <p>Policy can be taken out by: owner, contractor, engineer or general contractor</p>	<p>Structure while under construction or major renovation</p> <p>Contractors interest in materials at the job site before installation</p> <p>Materials in transit intended for the job</p> <p>Value of property being constructed until completed and accepted by owner</p>	<p><b>As stated in the policy</b></p> <p>Usually based on the completed project value</p> <p>If major renovation it should cover full cost of building including renovation</p>	<p>Contractor or supplier</p> <p>Premium is charged back to the “owner” through the contractor’s costs</p>	<p>If the value of existing property being worked on is significant and susceptible to damage</p>

# Pollution / Environmental Impairment Liability (EIL)

Who is insured?	What does it cover?	Limits	Who pays premium?	Mandatory or Optional?
<p>Contractor or developer</p> <p>Owner of property</p>	<p><b><u>CONTRACTORS</u></b></p> <p>Third party claims for bodily injury, property damage and/or environmental clean-up caused by pollution from their work</p> <p><b><u>OWNERS</u></b></p> <p>Pollution on the property can become responsibility of property owner regardless of fault. Covers remediation and possible third party claims.</p>	<p><b>As stated in the policy</b></p> <p>Will depend on risk exposures for each project</p> <p>Usually needed if work done is:</p> <ul style="list-style-type: none"> <li>- Construction</li> <li>- Excavation</li> <li>- Waste Disposal</li> <li>- Abatement or remediation work</li> <li>- Hazardous materials used</li> </ul>	<ul style="list-style-type: none"> <li>- Contractor or supplier</li> <li>- Premium is charged back to the "owner" through the contractor's costs</li> </ul>	<p><b><u>MANDATORY</u></b></p> <p>When work being done has possibility of causing pollution</p> <p><b><u>OPTIONAL</u></b></p> <p>No pollution exposure</p>



# CONTRACT FOR GOODS

- FOB Destination only – ownership transferred to us once the goods are delivered and accepted
- No coverage required for goods unless the goods are hazardous and will be physically transferred by the shipper from its containers to our storage tanks (in such case CGL for the supplier and the carrier may be required).

# Insurance for Contract for Services

Consulting services  
(remote only)

- Professional Liability

Consulting services  
(on our site)

- Professional Liability
- Owned and/or Non-Owned Auto
- CGL only if high risk associated with service

Consulting services  
(construction)

- Professional Liability
- CGL
- Owned and/or Non-Owned Auto

Consulting services  
(design/build)

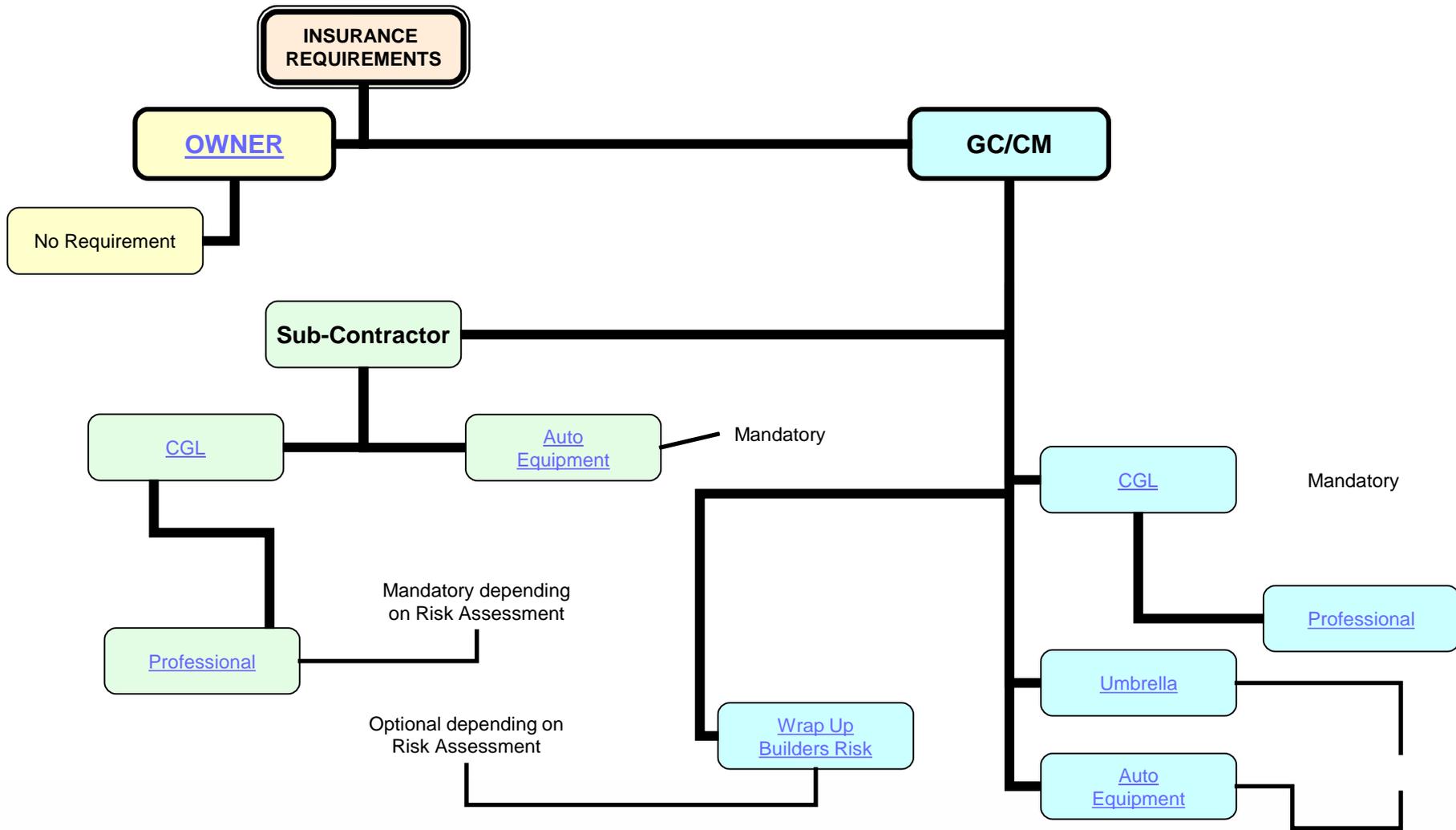
- Professional Liability
- If consultant is not lead on team for design/build: CGL
- If consultant is a lead for the team: Wrap-Up and possibly (Builders Risk)

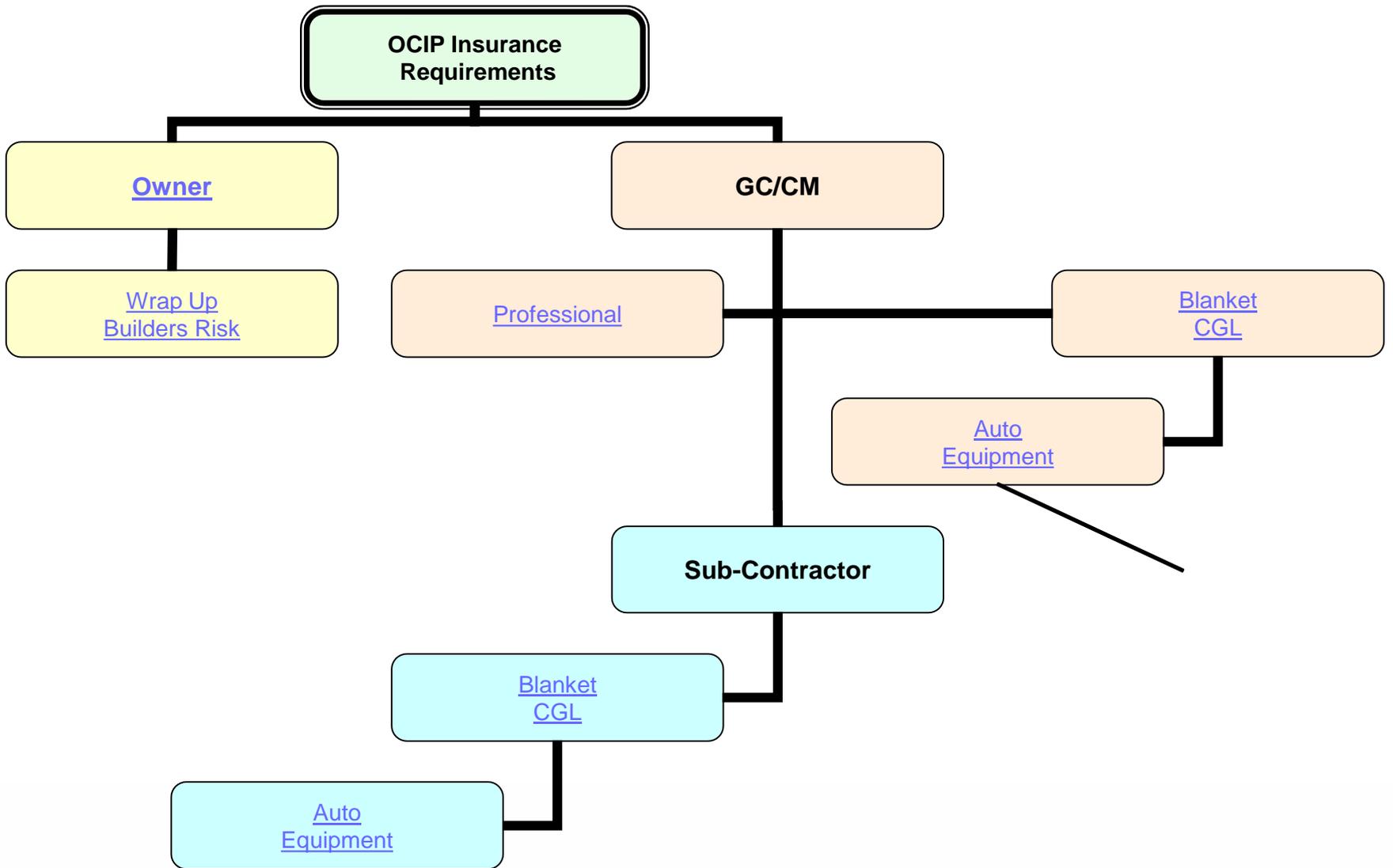
All other services

- CGL if performed on our property
- Pollution Liability if environmental exposure exists

Construction services

- See following slides





# SURETY

- Surety ship is the business of guaranteeing performance of one party to another. It serves as security for contract obligations. The guarantee is evidenced by a **bond**.
- **Bond** is a written contract under seal. It is a legally enforceable promise by the surety company to the obligee that the principal will carry out the obligation assumed.

# Interested Parties of Surety

<b>Principal (Contractor)</b>	<b>Party whose obligation is guaranteed</b>
<b>Obligee (Owner)</b>	<b>Beneficiary under the terms of bond</b>
<b>Surety (Guarantor)</b>	<b>The party who guarantees fulfillment of the principal's obligation</b>

# RULES OF SURETY

- To be able to claim under the bonds, the obligee (Owner), must be a party to the contract that is guaranteed by the surety and must fulfill all its contractual obligations.

# BASIC PRINCIPLES OF SURETY

## TYPES OF CONSTRUCTION BONDS

Construction Bonds	OBLIGATIONS			
	Purpose	Principal	Surety	Obligee
Bid Bond	-pre-qualify -weed out speculators	-enter contract -give security	-pay difference or obtain another bid	-take best offer
Performance Bond	-guarantee contract conditions	-promptly and faithfully perform contract	-remedy default complete contract obtain other bids	-make regular payments to principal
Payment Bond (Labour & Material)	-pay for unpaid labour and material	-make payments to all claimants for labour and material	-pick-up principal's obligation to make payments	-act as trustee for unpaid sub-trades
Maintenance	-guarantee work is done free from defects	-repair or replace any defective work	-remedy default or paying for any defects	-report defects

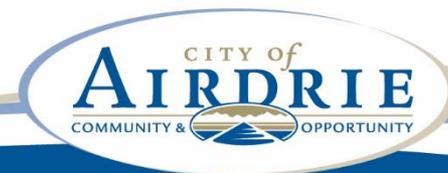
# DUAL OBLIGEE

New practice, not challenged yet.

- It introduces a new party to the bonding agreement, the owner, who becomes dual obligee along with the general contractor.
- It is difficult to claim.
- The owner may claim only in the case that general contractor goes bankrupt.
- The owner will have to fulfill any obligations toward subcontractors, than appoint the receiver to step into general contractor's shoes and to submit the claim to be able to claim under the bonds. The obligee (the Owner), must be the party to the contract that is guaranteed by the surety and must fulfill all its contractual obligations.

# HOLDBACK BOND

Rather than withholding 10% for statutory holdbacks, a Bond will be issued to cover claims under Builders Lien Act if the claim arises.



# CLAIMS

- Always keep Surety informed (they often on big projects send a form to be completed about the progress)
- If issues and red flags are raised, a notice to Surety gets the best results.
- Claims under:
  - Bid Bond
  - Performance and Maintenance Bond
  - Labour and Material Bond