

The background of the entire page is a close-up photograph of a heavily rusted and weathered metal structure, likely part of a bridge or industrial building. The rust is a mix of brown, orange, and dark grey tones. The lighting creates strong shadows and highlights the texture of the metal.

# Chubb Construction Risk Engineering

How Insurance Works

CHUBB®

## How Insurance Works

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## Workers' Compensation Insurance

### What is Workers' Compensation Insurance?

Purchased by employers for their workers, Workers' Compensation Insurance provides four types of benefits: medical care, death, disability, rehabilitation for employee job-related injuries or diseases without regard to fault. Usually purchased by the employer from an insurance company, the cost (or premium) is based on a percentage of the employer's payroll and depends on the employee's occupation.

This insurance pays for income, medical, rehabilitation, death, and survivor payments to workers injured on the job. State workers compensation laws require employers take responsibility for on-the-job injuries.

Each state specifies the benefits for employers in that state. Although these benefits were designed to be the only means to compensate employees for workplace injuries (known as

"exclusive remedy"), workers have been allowed to sue employers for some on-the-job injuries in addition to workers compensation benefits. Some states mandate that employers buy workers' compensation insurance from a state fund, but some offer a choice of a state fund, self insurance, or commercial insurance.

While coverage differs widely between states, provisions can be made for weekly payments in lieu of wages, compensation for economic loss, reimbursement or payment of medical and like expenses, and benefits payable to the dependents of workers killed during employment.

### Reasons for Workers' Compensation Insurance

Before Workers' Compensation laws, injured workers had to sue employers, who had a number of strong defenses to use in avoiding a judgment. However, a successful suit could result in large and unpredictable costs for an employer. Workers' Compensation Insurance provides for prompt payment of medical, rehabilitation, and lost time costs to

State Funds		
Competitive		Exclusive
Arizona	Montana	North Dakota
California	New Mexico	Ohio
Colorado	New York	Puerto Rico
Hawaii	Oklahoma	Virgin Islands
Idaho	Oregon	Washington
Kentucky	Pennsylvania	West Virginia
Louisiana	Rhode Island	Wyoming
Maine	Texas	
Maryland	Utah	
Minnesota		

injured workers, while placing limits on the cost of claims for employers.

Before statutory law, employees injured on the job were only able to pursue their employer through civil or torts law. Proof of employer malice or negligence was often required, but difficult for an employee to obtain. Although employers' liability was unlimited, courts often awarded in favor of the employer, and paid little attention to the full losses experienced by workers: medical costs, lost wages, and damages for loss of future earning capacity.

### When Does Workers' Compensation Not Apply?

In general, Workers' Compensation applies to injuries arising "during and in the course of employment." While rules vary by state, the insurance carrier normally is not liable to pay employee income benefits or medical benefits when:

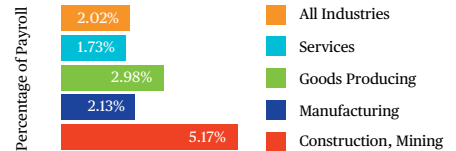
- The injury occurred while the employee was intoxicated;
- The employee injures him/herself intentionally or while unlawfully attempting to injure someone;
- The employee was injured by someone for personal reasons, not for reasons related to the employee's employment situation;
- The employee was injured while voluntarily participating in an off-duty recreational, social, or athletic activity not part of work-related duties, unless

the activity was reasonably expected or required by the employment;

- The injury was caused by the employee's horseplay.

### Impact of Direct Costs on Insurance

Construction and mining insurance costs account for over 5% of payroll, significantly higher than other industries. The industry's share of workers' compensation costs is disproportionately high. In 2001, while construction workers were about 6% of the non-farm, private-sector labor force, the industry used 18% of employer costs of workers' compensation.



### Types of Disabilities

Total Disability Benefit	Partial Disability Benefit	Residual Disability Income Insurance
<p>Monthly income payment from a Disability Income Insurance policy made to the insured wage earner when income has been interrupted or terminated because of illness, sickness, or accident provided the following stipulations by the wage earner have been met:</p> <ol style="list-style-type: none"> <li>1. Total disability for the duration that the policy is in force and beyond the Elimination Period and</li> <li>2. While remaining totally disabled, income payments are made at the end of each month until the limits on the maximum amount of benefit are reached, at which time payments will cease.</li> </ol>	<p>An amount usually expressed as 50% of the Monthly Indemnity for the Total Disability Benefit provided by a Disability Income Insurance Policy.</p> <p>This amount becomes payable when the insured wage earner's income has been interrupted or terminated because of illness, sickness, or accident.</p>	<p>Coverage for an individual with a residual disability. Benefits are usually payable for the unused portion of the total disability benefit period up to age 65. If an individual is at least age 55 at the time of disablement, and total disability lasts less than a year, residual benefits are payable for the unused portion of the benefit period for up to 18 months, but not beyond age 65. If there is at least a 25% loss in current earnings, the residual benefits will equal the percentage of loss times the monthly benefit for total disability. The residual disability monthly benefit can be expressed as:</p> <p><b>Loss of Monthly Income X Monthly Benefit for Total Prior Monthly Income Disability</b></p>

### Understanding the Experience Modification Rate (EMR)

EMR is an acronym for Experience Modification Rate. EMR is a factor applied to the premium of a policy which can provide an incentive for loss prevention. The EMR represents either a credit or a debit applied to the premium before discounts. If your company's loss experience is higher than the average of similar companies, the result is a debit EMR, or surcharge, on premiums. If your company's experience is less costly than the industry average, you will receive a credit EMR, or discount, on your premium.



Keep in mind that a contractor who has demonstrated a commitment to improving its safety performance and has made strides in enhancing the safety culture will not necessarily see a marked improvement in their EMR because it is based primarily on the losses for prior years. It can take a contractor two or more years to see a reduction in the EMR resulting from safety initiatives introduced.

The EMR is determined by comparing actual losses to expected losses for the experience period based on the employer's industry. In other words, iron worker employees are compared only to other iron workers.

Claims Costs for 3 - Year Period			Interval Year	Rating Year
01/01/2001	01/01/2002	01/01/2003	01/01/2004	01/01/2005
>>>>>>>>>>>>>>>>>>>>>>>>>>>>>>>>>			01/01/2005 EMR is calculated	01/01/2005 EMR is calculated

- A sound safety program, a return to work program, and effective loss prevention procedures will lower your EMR. The following example compares two Steel Erection Contractors who perform the same type of work and employ the same number of workers.

- This contractor has a strong safety program, good claims history and a low EMR.
- They have an EMR of .85, giving them a 15 percent discount on their Workers' Compensation Premium compared to other companies in the same industry,

- This contractor is an Indiana based Contractor that has an annual payroll of \$10,000,000 per year, a manual rate of 22.08 and a .85 EMR.

Based on the formula above XYZ Erectors will pay \$18,768.  
 $[\$10,000,000/100] \times 22.08 \times .85 = \$1,876,800.$

#### ABC Steel Erectors

This contractor is an Indiana based Contractor that has an annual payroll of \$10,000,000 per year, a manual rate of 22.08 and a 1.25 EMR.

Based on the formula above XYZ Erectors will pay \$27,600.  
 $[\$10,000,000/100] \times 22.08 \times 1.25 = \$2,760,000.$

As you can see, XYZ Erectors will be much more competitive than ABC Erectors because they are paying less for insurance - a difference of \$883,200.

#### Bodily Injury (BI)

A crane operator accidentally drops part of a load, which injures another subcontractor's employee on the site. The general liability (GL) policy of the

crane operator would pay for the injuries and lost wages.

#### Property Damage (PD)

An employee backs up a front-end loader, and crunches someone's vehicle. The GL policy would pay for the car repair and rental replacement while in the shop.

Most insurance companies require policyholders to promptly report any accidents that could lead to a liability claim. The insurer may then require the business owner to document the situation, forward all related summons

To cover these types of situations, many companies purchase "umbrella liability" insurance, which picks up where their general liability coverage ends. Umbrella liability covers payments that exceed your other policy's limits and provides additional coverage for liabilities not covered in a standard liability insurance policy.

#### Taking Precautions

Taking precautions before an accident can help keep your liability and insurance rates down. All businesses can take certain steps to minimize the likelihood of a liability insurance claim:

- Set a high standard for product quality control;
- Make sure all company records are complete and current;

Trade	Alabama	California	Indiana	Minnesota	New York	Texas
Carpentry	26.06	21.42	5.11	40.72	6.29	11.49
Electrical	26.06	21.42	5.11	40.72	6.29	11.49
Painting	21.38	10.47	9.19	17.58	15.68	24.83
Plumbing	7.85	36.91	12.00	10.94	33.39	24.19
Steel Erection	49.74	27.79	22.08	125.04	50.55	14.97

### General Liability Overview

#### Overview

A general liability insurance policy pays for the legal costs of a Contractor in a covered liability claim or lawsuit. Covered liability claims include bodily injury, property damage, personal injury and advertising injury (damage from slander or false advertising).

It also covers compensatory and general damages. Punitive damages aren't covered under general liability insurance policies because they are considered punishment for intentional acts

and legal notices, and cooperate fully in any investigations.

General liability insurance policies always state a maximum amount that the insurer will pay during the policy period, called a "Limit of Liability." Usually these policies also list the maximum amount the insurer will pay for a single occurrence. For example, if a contractor has a \$1 million occurrence cap in their liability policy and they are successfully sued for \$1.5 million, the insurer would pay \$1 million and the contractor would be responsible for paying \$500,000.

- Be sure employees are properly trained;
- Obtain a safety review and recommendations for your operations from your insurance company;
- Protect the public from hazards on your site.

#### Other Liability Coverages (See following page)

<b>Public Liability</b>	Coverage for a contractor's liability for injuries or property damage <b>suffered by third parties due to the contractor's ongoing operations.</b>	<b>Examples:</b> <ul style="list-style-type: none"> <li>On a street/road project, a motorist strikes a pothole, loses control and has an accident;</li> <li>Inadequate overhead protection for sidewalk results in debris falling on pedestrians resulting in injury;</li> <li>An attractive nuisance, a huge pile of dirt, brings in a group of curious children one of which falls and becomes injured.</li> </ul>
<b>Completed Operations</b>	Coverage for a contractor's liability for injuries or property damage <b>suffered by third parties due to the contractor completing an operation.</b> The contractor must take reasonable care in rendering a project safe and free from hazards.	<b>Example:</b> A paving contractor resurfaces a rural highway according to specs provided by the DOT. Three years later, in a heavy rain, two vehicles have a head-on collision. The widows sue the contractor, alleging that the slick surface caused the accident. The GL policy would defend the lawsuit, and pay if the contractor was deemed negligent by a judge or jury.
<b>Contractual Liability</b>	Liability incurred by a party through <b>entering into a written contract.</b>	<b>Example:</b> A plumbing contractor solders a joint, and leaves before it has cooled. The building burns down, and the owner sues the plumber and the general contractor for negligence. The GC tenders its suit to the plumber, based on their contract which includes a "Hold Harmless" clause for liability arising out of the plumber's work. The plumber's GL policy would cover the GC under the contractual liability provision.

## Automobile Liability Insurance

### Cost Basis

The cost of automobile coverage is based on the frequency and cost of potential accidents, theft and other losses.

Premiums also vary depending on the amount and type of coverage, the types of vehicles, driver's motor vehicle records, years of driving experience, and the number of miles the vehicle is driven per year. Other factors taken into account include drivers' age, where the vehicle is most likely to be driven and the times of day (e.g. rush hour in an urban neighborhood or leisure-time driving in rural areas). Credit history-related information may also be used.

### Types of Coverage

There are basically six different types of coverage. Some may be required by law while others are optional, such as:

- Bodily injury liability**, for injuries the policyholder causes to someone else.
- Medical payments or Personal Injury Protection (PIP)** for treatment of

injuries to the driver and passengers of the policyholder's car.

- Property damage liability**, for damage the policyholder causes to someone else's property.
- Collision**, for damage to the policyholder's car from a collision.
- Comprehensive**, for damage to the policyholder's car not involving a collision with another car (including damage from fire, explosions, earthquakes, floods, and riots), and theft.
- Uninsured motorist's coverage**, for costs resulting from an accident involving a hit-and-run driver or a driver who does not have insurance.

#### Example:

A driver hauling a trailer with an excavator changes lanes on a freeway. Unfortunately, he doesn't see the Ferrari in his blind spot, and forces it off the road into a bridge abutment.

- Bodily Injury (BI):** Pays the medical bills, lost wages, and any rehab incurred by the Ferrari driver.
- Property Damage (PD):** Pays to repair

the Ferrari, rental car while it's in the shop, and repairs to the bridge.

- Collision:** Pays to repair the truck and trailer of the driver who caused the accident.

## Key Point Review

- Whether Workers' Compensation applies can be a challenge to determine.
- Through the EMR, your safety record has a significant impact on the cost of insurance.
- There are ways of lowering your EMR, which then lowers insurance rates and premiums.
- General liability coverage includes not only public liability, but also completed operations, products, and contractual liabilities.





## Chubb. Insured.<sup>SM</sup>

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