



Consultants in Risk Management

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Construction Defect Mitigation Program (CDMP) Integrated Program Structure

C-Risk is a real estate and construction risk management consulting firm comprised of a collaborative network of industry professionals. This organizational structure is effective in providing clients with tailored risk management strategies and program-specific solutions utilizing proven best practice methodologies.

The majority of C-Risk consulting projects are focused on clients who need help to fully understand their risks and exposures. We provide practical advice on wrap-up insurance programs (OCIPs and CCIPs), construction defect mitigation processes, and risk transfer, risk retention and risk financing alternatives.

As I'm sure you're aware, most builders throughout the country have experienced a changing market for their insurance and risk management needs. Lack of underwriting capacity, increased insurance costs, fewer insurers, reinsurers, availability of A-Rated paper, coverage reductions and lower limits, particularly for umbrella and excess liability, are all part of the challenge. Many insurers have exited construction as a class of business, while others who remain have raised their underwriting thresholds and added a variety of exclusionary endorsements (e.g., mold, subsidence, EFIS, etc.) onto their General Liability policies.

In this environment, risk management has emerged as a long-term operational strategy. It's as much about seizing competitive opportunity as it is about avoiding catastrophic losses. Being able to view a company's risks from a holistic standpoint provides a clear view of a company's most important risks. Formulating strategies to address risks, a company can create risk transfer and risk financing methods, which free scarce resources for other business purposes. Successfully implementing these strategies for a client provides less balance sheet volatility and can improve operating results and shareholder value.

Success in obtaining General Liability insurance coverage for builders on condominium projects is contingent on preparing a credible underwriting submission. When builders approach selected insurance markets, they need to leverage their name, reputation and balance sheet. In addition, they need to make a commitment to partnering with their insurance company(s) by demonstrating that there will be limited risk of loss and claims on projects. This is a long-term commitment, operationally for safety & loss control, procedurally for quality control to mitigate potential construction defects, and financially for assuming a higher retention level and willingness to adopt alternative risk financing mechanisms as an option.

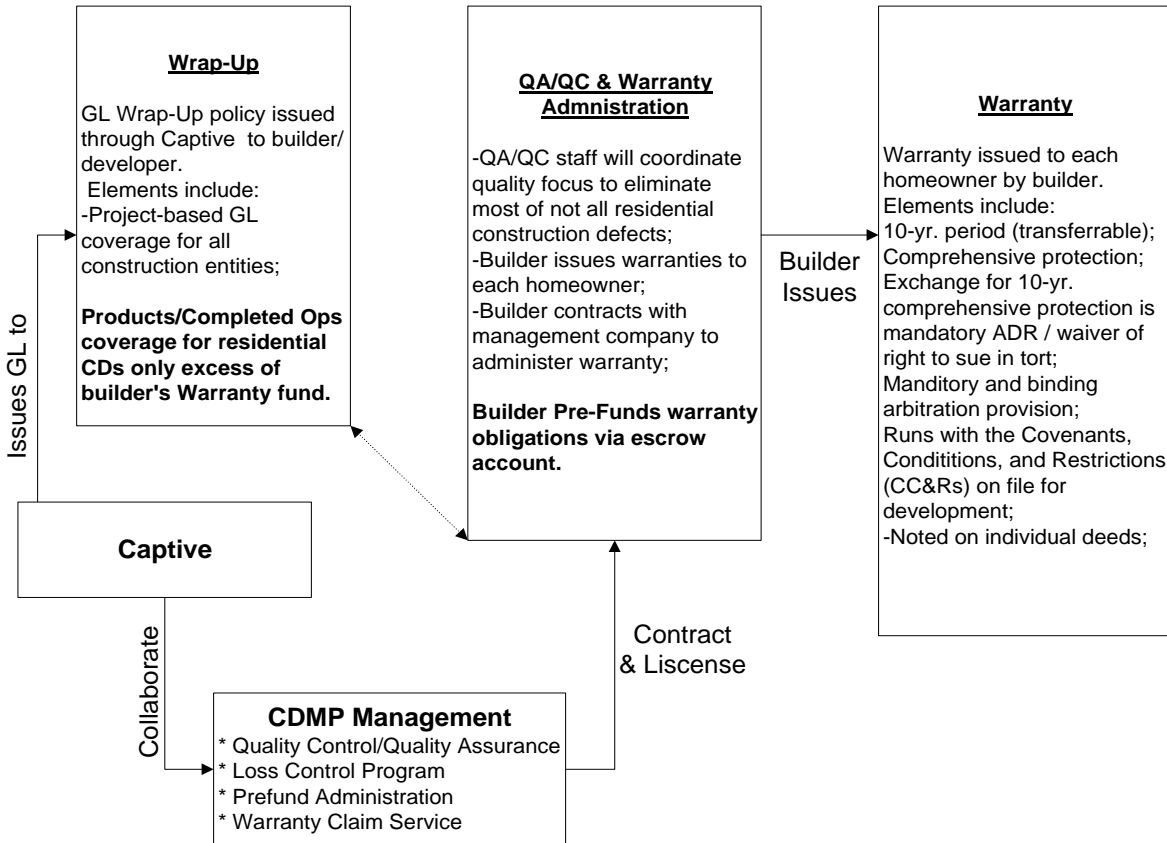
The Construction Defect Mitigation Program (CDMP) is an expansion of the Building Assurance Program, which was an integrated risk mitigation program. It includes a full 10-year warranty, GL wrap-up and stringent quality/loss control program to mitigate construction defect claims on residential construction. It is a dynamic program business model that addresses all of these needs of today's builder and developer.

The CDMP design is based on a framework that includes a full 10-year warranty product, GL wrap-up, an integrated quality/loss control process that could be underwritten and financed utilizing a captive or other alternative risk financing mechanism, which provides a very compelling program structure. The diversity of this program structure is that you can use the warranty as primary liability coverage, include a binding alternative dispute resolution (ADR) provision with a waiver of jury trial to remove the litigation dynamic, and use the GL wrap-up as excess liability coverage. The risk transfer mechanisms could be channeled through a captive insurance company or risk retention group (RRG), providing a builder with a highly effective and comprehensive risk management solution for condominium development projects.

A schematic of the CDMP framework and its specific components are delineated below:



Construction Defect Mitigation Program (CDMP)



(Functional Outline):

Financial Underwriting

- Analysis of builder's credit / financials;
- Reporting financial analysis to PCC Captive Admn. (underwriting)
- Tailoring PCC Captive;
- Tailoring Escrow Agmt
- Record keeping Re: financial instruments received from Builder;
- Protect CDMP and PCC Captive against any potential builder bankruptcy;

Loss Control

- Review Design process before construction begins;
- Monitor construction process for both quality and loss control using QA/QC program - ISO 9002 compliant;
- Interact with CM on RTB issues & resolve any CD or quality/loss control issues:
- LC reporting to CDMP manager (underwriting);

Warranty Administration

- Single point of contact for the Homeowner (800#);
- Record Keeping (construction performance data);
- Financial Accounting and Reporting;
- Coordinating repair;
- Grant License to Builder to issue CDMP Warranty;

Claim Management

- Manage pre-determined threshold claims;
 - Above threshold, coordinate claim management with CDMP Manager & CD claim unit;
 - Coordinate ADR;
 - Experience reporting to CDMP Admn and builder;
- ***NOTE: In reality, claim mgt. falls within Warranty Admin. but are separated due to significance.